UNIT-11 ORGANIZATION & OBJECTIVES OF SEBI

11.0 OBJECTIVES

After studying this module, the student should be able to

- Know about the Securities and Exchange Board of India of India Act, 1992.
- Learn about the establishment of the SEBI as per the SEBI Act 1992.
- Identify the composition of the Board and its Powers. Conceptualize the objectives of SEBI

11.1 INTRODUCTION TO SEBI ACT 1992

The Securities and Exchange Board of India (SEBI) was officially established in the year 1988 by Government of India when it succeeded the Controller of Capital Issues Act 1947, which was the only regulatory body operating then. The Parliament granted SEBI, its statutory powers in 1992 through provisions of the Securities and Exchange Board of India Act 1992 which was formed on the premise of protecting the interests of investors in securities, and to promote the development and regulation of the securities market.

According to the provisions of the Act, *"the Board is a body corporate having perpetual succession, a common seal, with power subject to the provisions of this Act, to acquire, hold and dispose of property both movable and immovable, and to contract, and shall be by said name, sue or be sued"*.

SEBI has its headquarters located in Mumbai and its four regional offices are based in New Delhi, Chennai, Kolkata and Ahmedabad. SEBI has come up with a number of initiatives aimed at regulating and developing the securities market in India and to improve its safety and efficiency, all of which have made an impact on various aspects of our economy. These initiatives have transformed our Securities Market in terms of market capitalization, number of companies listed on the Stock Exchanges and trading volume in spot and futures market. SEBI was formed to cater to the needs of three types of groups operating in the market namely:

- Issuers of finance – Large joint stock companies in need of long term funds depend heavily on the Securities Market to meet their requirements. The SEBI serves them by providing a safe market from where they are in a position to raise sufficient and timely finance.

- Investors – The suppliers of finance include the savers of money who rely heavily on capital market. SEBI ensures that their funds shall be parked in authentic and protected corporate destinations.

- Intermediaries- The intermediaries include various brokers, issue houses etc. which act as bridge between issuers and providers (investors) of finance. SEBI ensures the Corporations and investors a competitive, professional and fair market to trade in.

11.2 ORGANISATION & POWER OF THE BOARD

Organization of Board

According to section 4 of the SEBI Act, 1992 Board of SEBI comprises of the following:

a) A Chairman who is formally appointed by the Central Government.
b) Two officials of Central government from Ministry of Finance and Ministry of Corporate Affairs.
c) One official nominated by the RBI.
d) Five other members nominated by the central government, out of whom at least three shall be working as whole time members

  - The Chairman and other members constituting the Board (a) and (d) should be people of high integrity, ability and standing. They are expected to have a sound knowledge and experience in areas related to finance, law, economics, accountancy and administration so that they are in a position to take rational decisions for functioning of the SEBI. Also, they must possess some experience in dealing with the problems related to securities market or any other thing which may be found useful by the Board.

- The Chairman and members referred to in (a) and (d) are appointed by the Central Government, and members referred to in (b) and (c) are appointed by the Central Government and the Reserve Bank of India(RBI) respectively.
- The Board of members manage, supervise and direct the affairs of the Board, and has all the powers to do things and acts which may be exercised or done by the Board.

- The Chairman also has powers of general supervision and directing the Board, and also has power to exercise and do all acts and things which are within the sphere of influence of the Board.

Power of the Board :
Section 11 of the SEBI Act provides for the functions and powers of the Board. Some of the powers of SEBI are enlisted as under:

- The main function of the Board is to protect the interests of the investors in the securities market and to make provisions for its development and to regulate malpractices prevalent if any, by taking any measures which it may feel fit for the purpose.

- In order to empower SEBI to sustain its regulatory function efficiently, it has the power to approve the by-laws of the stock exchange, and to instruct them to amend their by-laws if required; to periodically call for returns from stock exchange and inspect their books of accounts; to inspect the books of accounts of various intermediaries involved in securities market so as to ensure their proper conduct; compel certain companies to get their shares listed in one or more stock exchanges; ensure compulsory registration of brokers and other intermediaries involved in stock exchange; and, formulate any laws which it feels necessary for smooth and fair conduct of the securities market.

- The Board has the same powers as that of vested in the Civil Court , under Code of Civil Procedure, while trying a suit, in respect to discovering and producing books of accounts and other documents for inspection; summoning and enforcing the attendance of persons and examining them on oath.

- The Board may take any of the measures (to be recorded in writing) to protect the interests of the investors in the securities market, as suspension of trading of any security on a recognized stock exchange; restraining any person from accessing the securities market and prohibiting any person associated with the securities market from buying, selling or dealing in securities.

- The Board has the power to give directions to any person associated with the securities market, or any company, in matters related to protection of interests of investors, development of the market; prevent affairs of any entity which are detrimental to the interests of the market; secure proper management of any such intermediary or entity etc.

11.3 PHILOSOPHY & OBJECTIVES OF SEBI

Basic Philosophy behind SEBI According to the SEBI Act 1992, SEBI has been described as a body corporate which is based on trifold principles of Ensuring transparency and fairness in functioning of the regulatory mechanism. Enforce a mechanism which places due respect and recognition to the fundamental rights granted under the constitution of India and other principles of natural justice. To enforce control of the judiciary in the administrative section. The three functions of SEBI i.e quasi judicial, quasi legislative and quasi executive have been rolled as one. In its legislative capacity SEBI drafts rules and regulations, conducts investigation of matters pertinent to securities market and executes them as a part of its executive function. And, as its judicial function it passes rulings and orders. All this has made SEBI a powerful entity; however there is an appeal process so as to make it more accountable for its actions. There is a 3 member tribunal known as Securities Appellate Tribunal, and the second appeal lies directly to the Supreme Court.

Objectives of SEBI The 1980's witnessed a tremendous growth in Indian capital market due to increased public participation which also brought with itself numerous malpractices on account of brokers, merchant bankers etc. who duped the investors of their funds. These fraudulent practices corroded the confidence of the investors as their grievances could not be redressed adequately by the Government and the stock exchanges working then. As a consequence the government established the SEBI as a separate regulatory body which could protect, preserve and promote the integrity of the securities market, so as to bring back investor's faith in the market and bring it at par with the other contemporary securities market of the world. Its main objectives are:

- Regulation of Stock Exchanges The primary objective of SEBI is to ensure proper regulation of stock exchanges so that all the parties (brokers, merchant bankers and other intermediaries) operating in it are provided efficient services. Its main aim is to ensure fair trade practices and promote professionalism.

- Protection of Investors Investors are the most important channels in securities market as they are the providers of finance, which forms the foundation of market, so their protection becomes imperative. For this SEBI ensures that investors are provided with accurate and timely information to rest their financial decisions on and aims at curbing malpractices associated with the market. It makes provisions so as to reduce the risk and delay involved in the delivery of shares and payment.

- Control over Intermediaries Intermediaries are the linking pin between the issuers and providers of finance, and play a crucial role in the market by mobilizing funds from one channel to the other one. Thus, it is very important to keep a close track of their functioning so that none of the parties involved in the market is benefitted at the stake of others.
- Consumer Education SEBI educates and guides the investors about various ways and means of investment, procedures, schemes and malpractices prevalent in the industry so that they park their funds with full caution.

- Market Regulation SEBI aims to curb the mal practices associated with the securities market such as insider trading, price rigging etc. and it frames various provisions to ensure smooth and fair functioning of the market. These provisions are monitored and amended from time to time to achieve a balance between corporate statutory regulation and corporate self regulation.

11.4 FUNCTIONS OF SEBI

- **Developmental Functions**

  The main reason for establishment of SEBI was development of the Securities Market in India so as to bring it at par with global cult markets. To perform the role of a developer of the market:

  SEBI tries to promote and develop business in the stock market by adopting a flexible approach for which it has permitted internet trading through registered brokers and has made under writing optional to reduce the cost of issue.

  It promotes and undertakes regular training of intermediaries operating in the market such as the brokers which ensures smooth, safe and speedy transactions.

- **Protective Functions**

  SEBI acts as a preserver of the securities market and performs the following functions to protect the interests of its stakeholders. As a protector of the market:

  It checks malpractices prevalent in the market such as price rigging, insider trading and prohibits fraudulent practices by preventing companies from making misleading statements.

  It undertakes steps to educate consumers about ways and means of functioning of the market, so that they may be able to take a rational investment decision.

It promotes fair practices and ensures adoption of a code of conduct through issuing guidelines to be followed by all. For example: to protect the interest of debenture holders it has issued guidelines which prevent companies from making any changes in terms of issue mid-term.

SEBI has been granted authority to penalize the parties indulged in unfair practices and can impose strict fines on them along with imprisonment. For example: it has been empowered to investigate cases of insider trading and has provisions for strict imprisonment.

- **Regulatory Functions**
    - To regulate the business in stock market SEBI performs following functions:
    - It frames rules and code of conduct to be followed by intermediaries of the market such as the merchant bankers.
    - It registers and regulates the functioning of stock brokers, trustees, merchant bankers and all other parties associated with the market.
    - It regulates mutual funds and takeover bids by companies.
    - SEBI conducts periodical inspection and audit of companies.

11.5 LET'S SUM UP

- SEBI was established by the Government as a statutory body according to the provisions of the SEBI Act 1992, which has a separate legal entity and perpetual succession. The basic premise of the establishment of SEBI was to regulate and control the functioning of the securities market, to ensure a fair and efficient trading mechanism.

- The three main areas of focus of the SEBI are the investors, the issuers and the intermediaries

- The headquarters of SEBI are located in Mumbai, and it has four other regional offices across India.

- The organization of SEBI comprises of a Chairman nominated by the Central Government, who presides over a Board of members drawn from areas of finance, economics and general administration.

- The Board has special powers to ensure orderly and just conduct of financial transactions in the market, and to prevent any malpractices associated with the same.

- The SEBI has brought back lost investor's confidence in the securities market by enacting and amending various laws for their protection thereby bringing our capital market at par with other developed securities market of the world.

- The main objective of formation of SEBI is to protect the interest of investors in the market so as to ensure smooth and timely availability of finance. It aims at securing professionalism among intermediaries so that market efficiency is ensured.

- There have been recent amendments in the SEBI Act in 2013 to further catalyze the role played by it in the growth of our economy.

11.6 KEY TERMS

- **Issuer :** An issuer is a legal entity that develops, registers and sells securities to finance its operations. Issuers may be corporations, investment trusts, or domestic or foreign governments.

- **Investor :** An investor is any person or other entity (such as a firm or mutual fund) who commits capital with the expectation of receiving financial returns. Investors utilize investments in order to grow their money and/or provide an income during retirement, such as with an annuity.

- **Intermediaries :** A person who acts as a link between people in order to try and bring about an agreement; a mediator.

- **Market Regulation :**

11.7 FURTHER READINGS

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- Patrick J. Cihon and James O. Castagnera, Employment and Labor Law, South-Western College.
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11.8 TERMINAL QUESTIONS

Q1 : Briefly discuss about Securities and Exchange Board of India of India Act, 1992.

Q2 : What is the composition of the Board and its Powers of SEBI

Q3 : Explain the objectives and functions of SEBI

UNIT-12 GUIDELINES OF SEBI

Structure

12.0 OBJECTIVES

After studying this unit, you should be able to:

- Know the detailed guidelines of SEBI regardings the fresh issue of shares and also regarding issue on Primary Market & Secondary Market.
- Learn the guidelines for the investors
- Know the limitations of SEBI
- Explain the rules regarding Bonus Issue & Right Issue

12.1 INTRODUCTION

The Securities and Exchanges Board of India (SEBI) was formed in 1988. However, SEBI attained statutory status in May, 1992 only after the repeal of the Capital Issues (Control) Act, 1947 and the consequent abolition of the regulatory organ under this

Act, viz., the Controller of Capital Issues. Since then, SEBI has gradually adopted many important roles in the area of policy formulation, regulation, enforcement and market development. Although the stock exchanges were legally under the control of the Ministry of Finance, they practically functioned like brokers' clubs in an independent and unaccountable manner. They were brought under regulation for the first time under the regulatory purview of SEBI. Today, SEBI supervises almost every element of the capital markets including regulation of intermediaries, curbing malpractices like market manipulation and insider trading, development of fair practices by the intermediaries, development of the market, awareness creation among investors, and so on

12.2 SEBI GUIDELINES FOR ISSUE OF SECURITIES

SEBI has brought out a number of guidelines separately, from time to time, for primary market, secondary market, mutual funds, merchant bankers, foreign institutional investor protection. SEBI advises certain guidelines in issue of fresh share capital, first issue by new companies in Primary Market and functioning of secondary markets in order to maintain quality standards. A few such guidelines and objectives of the Securities and Exchange Board of India (SEBI) are discussed here.

12.2.1 For Fresh Issue of Share Capital

- All applications should be submitted to SEBI in the prescribed form.
- Applications should be accompanied by true copies of industrial license.
- Cost of the project should be furnished with scheme of finance.
- Company should have the shares issued to the public and listed in one or more recognized stock exchanges.
- Where the issue of equity share capital involves offer for subscription by the public for the first time, the value of equity capital, subscribed capital privately held by promoters, and their friends shall be not less than 15% of the total issued equity capital.
- An equity-preference ratio of 3:1 is allowed.
- Capital cost of the projects should be as per the standard set with a reasonable debt-equity ratio.
- New company cannot issue shares at a premium. The dividend on preference shares should be within the prescribed list.
- All the details of the underwriting agreement.
- Allotment of shares to NRIs is not allowed without the approval of RBI.
- Details of any firm allotment in favor of any financial institutions.
- Declaration by the secretary or director of the company.

12.2.2 For Primary Market

- A new company which has not completed 12 months of commercial operations will not be allowed to issue shares at a premium.
- If an existing company with a 5-year track record of consistent profitability, is promoting a new company, then it is allowed to price its issue.
- A draft of the prospectus has to be given to the SEBI before public issue.
- The shares of the new companies have to be listed either with OTCEI or any other stock exchange.

12.2.3 For Secondary Market

All the companies entering the capital market should give a statement regarding fund utilization of previous issue.

- Brokers are to satisfy capital adequacy norms so that the member firms maintain adequate capital in relation to outstanding positions.
- The stock exchange authorities have to alter their bye-laws with regard to capital adequacy norms.
- All the brokers should submit with SEBI their audited accounts.
- The brokers must also disclose clearly the transaction price of securities and the commission earned by them. This will bring transparency and accountability for the brokers.
- The brokers should issue within 24 hours of the transaction contract notes to the clients.
- The brokers must clearly mention their accounts details of funds belonging to clients and that of their own.
- Margin money on certain securities has to be paid by claims so that speculative investments are prevented.
- Market makers are introduced for certain scrips by which brokers become responsible for the supply and demand of the securities and the price of the securities is maintained.
- A broker cannot underwrite more than 5% of the public issue.
- All transactions in the market must be reported within 24 hours to SEBI.
- The brokers of Bombay and Calcutta must have a capital adequacy of Rs. 5 lakhs and for Delhi and Ahmedabad it is Rs. 2 lakhs.
- Members who are brokers have to pay security deposit and this is fixed by SEBI.

12.3 GUIDELINES FOR BROKERS

- Registration of brokers and sub-brokers is made compulsory.

- Compulsory audit of broker's book and filing of audit report with SEBI have been made mandatory.
- No brokers is allowed to underwrite more than 5% of public issue.

12.4 GUIDELINES FOR FOREIGN INSTITUTIONAL INVESTORS

- Foreign institutional investors have been allowed to invest in all securities traded in primary and secondary markets.
- There would be no restriction on the volume of investment for the purpose of entry of FIIs.
- Holding of single FII will not exceed the ceiling of 5% equity capital
- Tax rate- 10% on large capital gain,30% on short term capital gains 20% on dividend.

12.5 GUIDELINES TO ISSUE BONUS SHARES

- Issue of bonus shares after any public/rights issue is subject to the condition that no bonus shall be made which will dilute the value or rights of holders of debenture, convertible fully or party.
- There should be a provision in the articles of association of the company for issue of bonus shares.
- No bonus issue can be made within 12 months of any public issue/rights issue.
- The bonus is made out of free reserves built out of the genuine profits or share premiums collected in cash only.

12.6 GUIDELINES FOR RIGHTS ISSUE

- Where composite issues are made by listed companies, they can be issued at different prices.
- Gaps between the clearance dates of right issues and public issues should not exceed 30 days.
- If right issues of listed companies exceed Rs.50 lakhs, issue should be managed by an authorized merchant banker.

12.7 GUIDELINES TO DEBENTURES

- The amount of working capital debentures should not exceed 20% of the gross current asset.
- The debt equity ratio should not exceed 2:1.
- The rate of interest can be decided by the company.
- Normally debentures above seven years cannot be issued.

- Debentures issued to public have to be secured and registered.

12.8 INVESTORS PROTECTION MEASURES BY SEBI

Investor protection legislation is implemented under Section 11(2) of the SEBI Act. The measures are as follows:

- Stock Exchange and other securities market business regulation.
- Registering and regulating the intermediaries of the business like brokers, transfer agents, bankers, trustees, registrars, portfolio managers, investment consultants, merchant bankers, etc.
- Recording and monitoring the work of custodians, depositors, participants, foreign investors, credit rating agencies, etc.
- Registering investment schemes like Mutual fund & venture capital funds, and regulating their functioning.
- Promotion and controlling of self-regulatory companies.
- Keeping a check on frauds and unfair trading methods related to the securities market.
- Observing and regulating major transactions and take-over of companies.
- Carry out investor awareness and education programme.
- Train the intermediaries of the business.
- Inspecting and auditing the security exchanges (SEs) and intermediaries.
- Assessment of fees and other charges.

12.9 LIMITATIONS OF SEBI

Though SEBI has started as a watchdog in protecting investors' interests, regulating the working of Stock Exchanges and promoting capital market, it still faces a number of problems in its working.

- The Central Government has authorised SEBI to frame its rules and regulations for actively monitoring capital markets. These rules and regulations will have to be approved by the government first. This will cause unnecessary delays and interference by the Finance Ministry.

- SEBI will have to seek prior approval for filing criminal complaints for violations of the regulations. This will again cause delays at government level.

- SEBI has not been given autonomy. Its Board of Directors is dominated by government nominees. The Chairman of the Board has no fixed tenure and can be sacked with three months' notice. These appointments should be for a fixed tenure to regulate the SEBI's working in the long run.

12.10 LETS SUM UP

SEBI has issued detailed guidelines in respect of issue of securities to the public. The guidelines were first issued on 11th June, 1992 and were amended subsequently from time to time. These guidelines were applicable to all public issues by listed and unlisted companies, all offers for sale and rights issues by listed companies whose equity share capital is listed, except in the case of rights issues where the aggregate value of securities offered does not exceed Rs. 50 lacs.

12.11 KEYWORDS

- **Primary Market :** The primary market is where securities are created. It's in this market that firms sell (float) new stocks and bonds to the public for the first time. An initial public offering, or IPO, is an example of a primary market.
- **Secondary Market :** The secondary market, also called the aftermarket and follow on public offering is the financial market in which previously issued financial instruments such as stocks, bonds, options, and futures are bought and sold.
- **Bonus Issue :** An issue of additional shares to shareholders instead of a dividend, in proportion to the shares already held.
- **Right Issue :** A rights issue is a way by which a listed company can raise additional capital. However, instead of going to the public, the company gives its existing shareholders the right to subscribe to newly issued shares in proportion to their existing holdings
- **Debentures :** A long-term security yielding a fixed rate of interest, issued by a company and secured against assets. An unsecured loan certificate issued by a company.
- **Composite Issue :** A Composite Issue is an issue of shares or Convertible Securities on Public-cum-Right basis, wherein the allotment in both Public Issue and Rights Issue is proposed to be made simultaneously

12.12 FURTHER READINGS

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- Waghmare, Tushar (1998); The Future of India's Stock Markets, 1997, IIEF, New Delhi, XXXIV (3-4), 183-194.

12.13 TERMINAL QUESTIONS

Q1 Discuss in detail the guidelines of SEBI regarding the issue of Securities.

Q2 State the difference between a Primary Market & Secondary Market.

Q3 What are the limitations of SEBI?

Q4 Explain the guidelines of SEBI on Foreign Institutional Investors

Q5 Write Notes on

- Bonus Issue
- Right Issue
- Foreign Institutional Investors

UNIT-13 POWERS & ROLE OF SEBI

Structure

13.0 OBJECTIVES

After studying this module, you shall be able to know

- The history of establishment of SEBI.
- About various regulations adopted by SEBI to protect investors and the market.
- The role played by SEBI in investor protection.

13.1 INTRODUCTION

During the latter half of the 80's, a need for a regulatory body for Investor protection in India was felt because it was an informationally weak market and also the investors were beaten down by repeated scams. Increasingly softening interest rates and an underperforming economy had eroded investment options, and required improved investing proficiency. Prior to the setting up of the Securities and Exchange Board of India (SEBI), capital issues in India were regulated by the Capital Issues (Control) Act, 1947.

The main objectives of this Act were to ensure that investment in the private corporate sector does not violate priorities and objectives laid down in the Five Year Plans or flow into unproductive sectors; to promote the expansion of private corporate sector on sound lines in general, and further the growth of particular corporate enterprises having sound capital structure; and to distribute capital issues time-wise in such a manner that there is no overcrowding in a particular period. The job of managing the capital issues control in accordance with the principles and policies laid down by the Central Government was delegated to the Controller of Capital Issues (CCI). Prior sanction of the CCI was essential for any capital issues in the market. The Narasimhan Committee in its report on the Financial System submitted in 1991 argued that the capital market was tightly controlled by the government and there were a number of restrictions placed by the CCI on the operations of this market. This restrictive environment was neither in tune with the new economic reforms nor conducive to the growth of the capital market. The Committee strongly preferred considerable liberalization of the capital market by concluding down the office of the CCI. Thus, SEBI was established as a statutory body in 1992 by the SEBI Act 1992, by the parliament to protect, preserve and promote the securities market in India. Among other things, the Board has been mandated to create an environment which would facilitate mobilization of adequate resources through the securities market and its proficient and efficient allocation

13.2 ROLE PLAYED BY SEBI IN PROTECTION OF INVESTORS IN THE SECURITIES MARKET

Section 11(2) of the SEBI Act contains measures available with SEBI to ensure investor protection. The measures available with SEBI include the following:

- Regulating the business in Stock Exchanges (SEs) and any other securities markets.
- Registering and regulating the working of intermediaries like stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers etc. associated with securities markets.
- Registering and regulating the working of the depositories, participants, custodians of securities, foreign institutional investors, credit rating agencies and other intermediaries .
- Registering and regulating the working of venture capital funds and collective investment schemes, including mutual funds.
- Promoting and regulating self-regulatory organizations.
- Prohibiting fraudulent and unfair trade practices relating to securities markets.
- Prohibiting insider trading in securities.
- Regulating substantial acquisition of shares and takeover of companies.
- Promoting investors' education and training of intermediaries of securities markets.
- Carry out inspection/ audits of the SEs / intermediaries etc.
- Call for information from any bank / any authority / corporation / agencies in respect of any transaction in securities which is under investigation or inquiry by SEBI.
- Performing such functions and exercising such powers under the Securities Contracts (Regulation) Act, 1956 (SCRA).
- Levying fees or other charges.
- Conducting research.

- Performing such other functions as may be prescribed.

- **ISSUE OF GUIDELINES**

SEBI has issued guidelines in relation to the issue of capital by companies, mutual funds, portfolio managers, merchant bankers, underwriters, lead managers, etc. These guidelines are for bringing transparency in their operations in capital market and also for circumventing exploitation of investors.

- **REGULATION OF STOCK EXCHANGE**
  - Supervision on brokers
  - Registration of brokers and sub-brokers
  - Suitable training to intermediaries
  - Regulations for mutual funds:
  - Promotes self regulatory mechanism
  - Regulation of Mergers and takeovers in interest of investors
  - Prohibit fraudulent and unfair practices of intermediaries
  - It issues guidelines to companies regarding capital issues
  - Conduct research and publish information for all market players
  - To conduct inspection, inquiries & audits of stock exchanges
  - Restrict insider trading activity through suitable measures

- **ISSUE OF CODE OF ADVERTISEMENT FOR PUBLIC ISSUES**

SEBI has introduced a code of advertisement for public issues for warranting fair and truthful disclosures. In order to reduce the cost of issue, the underwriting is made optional on certain terms. These steps are also for the protection of investors. SEBI keeps a watch on all intermediaries and sees that they follow the guidelines in the right spirit. It also takes penal actions when the guidelines are not followed, thereby safeguarding the interests of the investors.

- **EDUCATING AND INFORMING THE SMALL INVESTORS**

The major thrust of SEBI has been on educating and informing the small investors which is clearly evident from the motto that 'a learned and informed investor is a safe investor'. Keeping complete faith on the above all endeavors have been made in this direction including announcing the year 2003 as the 'Jaagte Raho' year and awareness and organized more than 1000 investor conference, exhibitions, mela, seminars, Union Budget meetings and public meetings for small investors across India. More than 5 Lacs investors took part in various programmes. More than 2200 workshops have been conducted in around 500 cities/towns across the country in this direction.

➢ CODE REGARDING TAKEOVERS

SEBI has now issued code regarding takeovers of companies, mergers and amalgamations. It has introduced regulations governing substantial acquisition of shares and takeovers and lays down the conditions under which disclosures and mandatory public offers have to be made to the shareholders. Here, the purpose is to protect the interests of investors even when they are not directly party to such takeovers.

➢ PROHIBITION OF INSIDER TRADING

SEBI (Prohibition of Insider Trading) Regulations, 1992 (Insider Trading Regulations) deals with prohibition on dealing, communicating or counseling on matters relating to insider trading based on unpublished price sensitive information etc**.**

➢ SEBI CODE OF ETHICS FOR DIRECTORS

The Securities and Exchange Board of India (SEBI) has formulated a code of ethics for directors and functionaries of stock exchanges aimed at establishing professional and ethical standards for creating a fair and transparent market place. The silent features of this code of ethics includes: Fairness and transparency in dealing with the matters relating to the exchange and investors. Prohibition on dealing in securities in proprietary accounts by elected office bearers such as President, Vice President, Treasurer etc. Disclosure of dealing in securities by functionaries and directors of exchange. Avoidance of conflict of interest in decision-making. Compliance with the regulatory laws exercising due diligence in the performance of duties

➢ GIVEN BELOW ARE THE TYPES OF GRIEVANCES FOR WHICH INVESTORS COULD APPROACH SEBI

Type-I:	Refund Order/ Allotment Advice
Type-II:	Non-receipt of dividend
Type-III:	Non-receipt of share certificates after transfer
Type-IV:	Debentures
Type-V:	Non-receipt of letter of offer for rights
Type VI:	Collective Investment Schemes
Type VII:	Mutual Funds/ Venture Capital Funds/ Foreign Venture Capital Investors/ Foreign Institutional Investors/ Portfolio Managers, Custodians

Type VIII:	Brokers/ Securities Lending Intermediaries/ Merchant Bankers/ Registrars and Transfer Agents/ Debenture Trustees/ Bankers to Issue/ Underwriters/ Credit Rating Agencies/ Depository Participants
Type IX:	Securities Exchanges/ Clearing and Settlement Organizations/ Depositories
Type X:	Derivative Trading
Type XI:	Corporate Governance/ Corporate Restructuring/ Substantial Acquisition and Takeovers/ Buyback / Delisting / Compliance with Listing Conditions

➢ **TACKLING FALSE PROMISE OF ASSURED RETURNS BY BANKS SPONSORED MUTUAL FUNDS**

Many banks sponsored mutual fund had launched assured return schemes and lured the investor's huge contribution. However at the time of maturity they could not match the assured return. Sponsored bank also tried to raise their hands eg. Canara Bank, Indbank, State Bank etc. Investors fought the matter heavily with the SEBI / mutual fund / finance ministry and insisted that all the assured returns should be paid to them. Due to the intervention SEBI gave directive to sponsor bank to honor the commitment made by the mutual funds. Shortfall of more than Rs. 2000 crores was met by sponsor banks for the benefit of small investors.

13.3 CRITICAL APPRAISAL OF THE ROLE OF SEBI

SEBI surmounted several obstacles on the way to development of capital market with due care for investors' interests and greater transparency in the affairs of organizations and stock exchanges, though not to the extent of hundred percent. As we have seen that via different guidelines it had made it sure that no stone remains unturned in the path of the mission of protecting investors. Investor education campaigns have been yielding positive results to some extent, still a lot more needs to be done. Indian investors have been steadily fleeing the market, despite the apparent spread of 'equity cult', which calls for immediate attention of the apex body to frame and effectively implement the measures to protect the interests of investors, and restore their confidence in the stock market.

SEBI being a premiere institution for dealing with the problems relating to securities has advanced a long way towards protecting the investors from the hazards of the predators existing in the market. SEBI has strengthened and established itself as an all powerful regulatory body for the capital market.

In new Companies' Act 2013, company can re-open its book of accounts or re-cast its financial statements on the ground that the relevant earlier accounts were prepared in a fraudulent manner or the affairs of the company were mismanaged during the relevant period casting a doubt on the reliability of the financial statements. Such reopening or re-casting of its financial statements is permissible if an application is made by CG, IT authorities, SEBI or any other statutory regulatory body or authority or any person concerned and an order is made by a Court or NCLT(National Company Law Tribunal).

13.4 LET'S SUM UP

- SEBI was established in 1992, by provisions of SEBI Act 1992, on recommendations of Narasimham Committee.
- It has since its inception taken various steps and made provisions for education and awareness of investors.
- SEBI has regulated the market by compulsory registration of all parties involved in securities market namely brokers, asset management companies, mutual funds, merchant bankers etc.
- It calls for inspection of books of accounts of the intermediaries to ensure transparency and fair trade practices.
- It makes amendments, rules and regulations from time to time to develop and promote the securities market in India, and prevent malpractices if any.

13.5 KEY WORDS

- **Stock Exchange :** A stock exchange, securities exchange or bourse is a facility where stockbrokers and traders can buy and sell securities, such as shares of stock and bonds and other financial instruments.

- **SEBI :** The Securities and Exchange Board of India is the Regulator for the Securities market in India owned by Government of India. It was established in 1988 and given Statutory Powers on 30 January 1992 through the SEBI Act, 1992

13.6 FURTHER READINGS

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13.7 TERMINAL QUESTIONS

Q1 Write briefly the history of SEBI.

Q2 Discuss about various regulations adopted by SEBI to protect investors and the market.

Q3 Explain the role played by SEBI in investor protection.

UNIT 14 GROWTH & ROLE OF STOCK EXCHANGE IN INDIA

14.0 OBJECTIVES

After studying this module, you shall be able to know:

- The history of Stock Exchange in India
- About the functions and characteristics of stock exchange
- About BSE, NSE & India INX
- About the future of Stock Exchange in India

14.1 INTRODUCTION

A stock exchange is an important factor in the capital market. It is a secure place where trading is done in a systematic way. The stock exchange is a virtual market where buyers and sellers trade in existing securities. It is a market hosted by the institute or any such government body where shares, stocks, debentures, bonds, etc. are traded. Stock exchanges help companies to raise funds.

Therefore the company needs to list themselves on the stock exchange. Shares listed on the stock exchange are known as equity and these shareholders are known as Equity Shareholders.

In other words, a stock exchange is a forum where securities like bonds and stocks are purchased and traded. This can be both an online trading platform and offline (physical location).

14.2 HISTORY OF STOCK EXCHANGE IN INDIA

Security trading in India goes back to the 18th century when the East India Company began trading in loan securities. Corporate shares started being traded in the 1830s in Bombay (now Mumbai) with the stock of Bank and Cotton presses. The simple and informal beginnings of stock exchanges in India take one back to the 1850s when 22 stockbrokers began trading opposite the Town Hall of Bombay under a banyan tree. The tree still stands in the area which is now known as Horniman Circle.

The venue then shifted to banyan trees at the Meadows Street junction, which is now known as Mahatma Gandhi Road, a decade later. The shift continued taking place as the number of brokers increased, finally settling in 1874 at what is known as Dalal Street. This as yet informal group known as the Native Share and Stockbrokers Association organized themselves as the Bombay Stock Exchange (BSE) in 1875. The BSE is the oldest stock exchange in Asia and was the first to be granted permanent recognition under the Securities Contract Regulation Act, 1956.

The BSE was followed by the Ahmedabad Stock Exchange in 1894 which focused on trading in shares of textile mills. The Calcutta Stock Exchange began operations in 1908 and began trading shares of plantations and jute mills. The Madras Stock Exchange followed, being set up in 1920.

In the post-independence era, the BSE dominated the volume of trading. However, the low level of transparency and undependable clearing and settlement systems, apart from other macro factors, increased the need of a financial market regulator, and the SEBI was born in 1988 as a non-statutory body. It was made a statutory body in 1992.

After the Harshad Mehta scam in 1992, there was a pressing need for another stock exchange large enough to compete with the BSE and bring transparency to the stock market. This gave birth to the National Stock Exchange (NSE). It was incorporated in 1992, become recognized as a stock exchange in 1993, and trading began on it in 1994. It was the first stock exchange on which trading took place electronically. In response to this competition, BSE also introduced an electronic trading system known as BSE On-line Trading (BOLT) in 1995.

The BSE launched its sensitivity index, the Sensex, now known as the S&P BSE Sensex, in 1986 with 1978–79 as the base year. This is an index of 30 companies and is a benchmark stock index, measuring the overall performance of the exchange. The index reached the level of 1,000 in July 1990, 2,000 in January 1992, 4,000 in March 1992, 5,000 in October 1999, and 6,000 in February 2000. The exchange introduced equity derivatives in 2000. Index options were launched in June 2001, stock options in

July 2001, and stock futures in November 2001. India's first free-float index, BSE Teck, was launched in July 2001.

Its competitor, NSE, launched its benchmark exchange, CNX Nifty, now known as Nifty 50, in 1996. It comprises of 50 stocks and functions as the performance measure of the exchange. In terms of electronic screen-based trading and derivatives, it beat BSE by launching first of its kind products and services.

14.3 FEATURES OF STOCK EXCHANGE

- **A market for securities-** It is a wholesome market where securities of government, corporate companies, semi-government companies are bought and sold.
- **Second-hand securities-** It associates with bonds, shares that have already been announced by the company once previously.
- **Regulate trade in securities-** The exchange does not sell and buy bonds and shares on its own account. The broker or exchange members do the trade on the company's behalf.
- **Dealings only in registered securities-** Only listed securities recorded in the exchange office can be traded.
- **Transaction-** Only through authorised brokers and members the transaction for security can be made.
- **Recognition-** It requires to be recognized by the central government.
- **Measuring device-** It develops and indicates the growth and security of a business in the index of a stock exchange.
- **Operates as per rules**– All the security dealings at the stock exchange are controlled by exchange rules and regulations and SEBI guidelines.

14.4 FUNCTIONS OF STOCK EXCHANGE

- **Economic Barometer:**

  A stock exchange is also known as a pulse of the economy or economic mirror which reflects the economic conditions of a country. Stock exchange is a source to know the economic conditions of a country. Every major change in the country and economy is reflected in the prices of shares. The rise or fall in the share prices indicates the boom or recession cycle of the economy. Stock exchange is also known as a pulse of economy or economic mirror which reflects the economic conditions of a country.

- **Pricing Securities**

  The stock market helps to price of the securities based on demand and supply. The securities of profitable and growth oriented companies are valued higher as there is more demand for such securities. The valuation of securities is important for investors, government and creditors. The investors can know the value of their investment, the creditors can value the creditworthiness and government can impose taxes on the value of securities.

- **Safety of Transaction**
  In stock market only the listed securities are traded and stock exchange authorities include the companies names in the trade list only after verifying the soundness of the company. The companies which are listed they also have to operate within the strict rules and regulations. This ensures safety of dealing through stock exchange.

- **Contributes to Economic Growth**
  In stock exchange securities of various companies are bought and sold. This process of disinvestment and reinvestment helps to invest in most productive investment proposal and this leads to capital formation and economic growth. As we know the stock exchange deals in already-issued securities. But these securities are continuously sold and resold and so on.

- **Better Allocation of Capital**
  The shares of profit making companies are quoted at a higher price. As a result such companies can raise fresh capital. The general public will never be interested to invest in any loss making company. So the stock exchange facilitates the allocation of investors fund into profitable channels. The shares of profit-making organisations are valued at higher prices and are actively traded so such organisations can efficiently raise capital from the stock market.

- **Liquidity**
  The main function of the stock market is to provide a ready market for sale and purchase of securities. The presence of stock exchange market gives assurance to investors that their investment can be converted into cash whenever they want.

- **Promotes savings and Investments**
  The stock market provides an option to invest in various securities. The stock market gives attractive chances for investment in different securities. These attractive opportunities inspire people to save more and invest in securities of the corporate sector rather than investing in unfruitful assets such as gold, silver, etc.

14.5 MAJOR STOCK EXCHANGES IN INDIA

Indian stock exchange is one of the oldest markets in Asia and is a yardstick to measure the health and progress of the economy of the country. Over the course of the period, the market has transitioned into the electronic market and securities are dealt in dematerialization form.

- **Bombay Stock Exchange (BSE):**
  It is the oldest stock exchange in India established in 1875. It is the pioneer of the securities transaction business. It is based in Mumbai and it lists 6000 companies. It facilitates the growth of the Indian corporate sectors by providing a capital raising platform was founded by Mr. Premchand Roychand, famously known as the Cotton King, the Bullion King or the Big Bull. He was a renowned businessman in the 19th century. It is the largest stock exchange in Asia. BSE is an Indian stock exchange located at Dalal Street, Mumbai and operates with a vision to “Emerge as the premier Indian stock exchange with best-in-class global practice in technology, product innovation, and customer service.”

It provides a host for other services to capital market participants including risk management, clearing, market data service. The average daily turnover of BSE is 200 crores. It has a global rich to the customers around the world and also it has a nationwide presence.

Sensex- The Index of the BSE

Sensex (S&P BSE Index) is the most popular index of the BSE. It is, in fact, the benchmark index of the stock exchange. It is the value-weighted index of the largest 30 companies of the stock exchange which are actively trading. It provides the most accurate gauge of the current financial position of the stock market as well as the economy.

To calculate the daily Sensex we divide the market value of the 30 largest, most traded companies of the index by the index divisor. This index divisor relates to the original base value of the Sensex.

Since India went through economic reforms in 1991, the Sensex has seen enormous and rapid growth. There was a major crash in 1992 due to the financial scam, and many such crashes since, but the Sensex has always recovered. It reached 20,000 points in 2007 and reach the highest point of 38,989 in August of 2018.

Organization of the BSE

The day to day functioning of the BSE is managed by a Board of Directors. It consists of a Managing Director as well as a Chairman along with Public Interest and Shareholders Directors. They form the rules and policies with respect to the trading of shares and securities, commodities, derivatives, etc. on the stock exchange.

Importance of the BSE

The Bombay Stock Exchange is the oldest stock exchange in Asia. It has played a very large part of India's economy over the last two decades. It has involved India's growing middle class and turned savings to investment. It has a large hand in the rapid growth of India's GDP from 2002 to 2007.

It has also contributed to bringing technology into the financial sector. It introduced BOLT (BSE online trading system) in 1995 to promote transparency and eliminate any errors. And then came the dematerialization of shares in 2015. Here, shareholders convert their physical shares to electronic balances linked to their Demat accounts.

The BSE has also taken many initiatives to educate and train investors and traders. The idea is to provide maximum investor protection. So the investors need to be educated and rely on solid analysis rather than only speculative actions.

- **National Stock Exchange (NSE)**

NSE is the youngest stock exchange of India which came into the picture in the year 1992 and operates with a vision, "*To continue to be a leader, establish a global presence, and facilitate the financial well-being of people.*"

In 1992, for the very first time in India, NSE introduced the advanced electronic trading system which removed the paper-based settlement system from trading and offered an easy trading facility.

The National Stock Exchange of India Limited (NSE) is the leading stock exchange of India, located in Mumbai. The NSE was established in 1992 as the first dematerialized electronic exchange in the country. It is the fourth largest in the world according to World Federation Exchange (WFE) in terms of equity trading volume in 2015.

It is managed by professionals who do not directly or indirectly trade on the Exchange. The trading rights are with trading members who offer their services to the investors. The Board of NSE comprises of senior executives from promoter institutions and eminent professionals, without having any representation from trading members. While the Board deals with the broad policy issues, the Executive Committees (ECs), which include trading members, formed under the Articles of Association and the Rules of NSE for different market segments, set out rules and parameters to manage the day-to-day affairs of the Exchange.

The day-to-day management of the Exchange is delegated to the Managing Director who is supported by a team of professional staff. Therefore, though the role of trading members at NSE is to the extent of providing only trading services to the investors, the Exchange involves trading members in the process of consultation and participation in vital inputs towards decision making.

- **India International Exchange (India INX)**

  The India International Exchange is India's first international stock exchange, opened in 2017. It is located at the International Financial Services Centre, GIFT City in Gujarat. It is a wholly owned subsidiary of the Bombay Stock Exchange.

It is claimed to be the world’s most advanced technological platform with a turn-around time of 4 microseconds which operates 22 hours a day and six days a week. Because of these timings, international investors and Non-Resident Indians (NRIs) can trade from anywhere across the globe at their preferred timings.

Features of INX Exchange

- It will be world's fastest exchange in terms of response time, with median trade speed of 4 microseconds
- Will be open for trading 22 hours a Day
- BSE will be investing 500 crore in this exchange over the next 3 years
- INX will trade in equities and other related products of companies incorporated outside India
- Currently it will offer derivative products in equity, currency and commodities. It will then expand to Depository receipts and bonds.
- INX has security in line with International standards.

  India INX will provide an electronic platform to facilitate trading, clearing and settlement of the widest range of global benchmark products across all major asset classes. These will include: Equity and equity derivatives Commodity derivatives Currency derivatives Interest rate derivatives Debt instruments

14.6 FUTURE OF STOCK EXCHANGE

Indian economy is one of the fastest-growing economies in the world with a growth rate of more than 7%. It is expected to reach 3 trillion dollar mark by the end of this year and goal is to become touch 5 trillion dollar mark by 2025 to become the 3rd largest economy in the world. In a growing economy like India, the future of stock exchange is bright and the volume of transactions will grow substantially in the coming years. Out of 1.2 billion people, there are only 20 million demat accounts as of now. Government's initiative to bring retail customers in mutual funds and foreign investments in India will help the stock exchange of India.

14.7 LET'S SUM UP

The stock exchange is a virtual market where buyers and sellers trade in existing securities. It is a market hosted by the institute or any such government body where shares, stocks, debentures, bonds, etc. are traded. Stock exchange is a source to know the economic conditions of a country. Indian stock exchange is one of the oldest markets in Asia and is a yardstick to measure the health and progress of the economy of the country. Over the course of the period, the market has transitioned into the electronic market and securities are dealt in dematerialization form.

14.8 KEYWORDS

- **BSE :** The Bombay Stock Exchange is an Indian stock exchange located at Dalal Street, Mumbai. Established in 1875, the BSE is Asia's first stock exchange. The BSE is the world's 10th largest stock exchange with an overall market capitalization of more than $2.2 trillion on as of April 2018.

- **NSE :** The National Stock Exchange of India Limited is the leading stock exchange of India, located in Mumbai. The NSE was established in 1992 as the first dematerialized electronic exchange in the country.

- **India INX :** The India International Exchange is India's first international stock exchange, opened in 2017. It is located at the International Financial Services Centre, GIFT City in Gujarat. It is a wholly owned subsidiary of the Bombay Stock Exchange.

14.9 FURTHER READINGS

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- Arora & Banshal, Corporate Law – Vikash Publication
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14.10 TERMINAL QUESTIONS

Q1 Write a note on the stock exchange of India & explain its features.

Q2 Describe the future of Stock Exchange of India.

Q3 What are the functions of Stock Exchange of India ?

Q4 Write short notes on Bombay Stock Exchange & National Stock Exchange.

UNIT-15 RIGHTS OF SHAREHOLDERS

Structure

15.0 OBJECTIVES

After studying this unit, you will be able to know

- The rights of shareholders of a company
- The duties of the shareholders
- Different methods of voting of the shareholders

15.1 INTRODUCTION

In India, companies are mostly established and governed by the Companies Act 2013. There are basically two types of companies established in India, namely public limited company and private limited company. In India, people prefer to open private limited firm because of fewer restrictions and more benefits. Shareholders play an important role in a company. It is very important for a company to look after them as they should also be safeguarded and time to time proper bonus should be given to them.

A shareholder, commonly referred to as a stockholder, is any person, company, or institution that owns at least one share of a company's stock. Because shareholders are a company's owners, they reap the benefits of the company's successes in the form of increased stock valuation. Shareholders play an important role in the framing and profits of the company. Shareholders are the owners of the company. They are the main stakeholders in the company. There are two types of shareholders:

- **Equity Shareholders**
  Equity shareholders are the main stakeholders in a company and when the time of dividend distribution comes the preference shareholders would get the first.

- **Preference shareholders**
  Preference shareholders generally have no voting rights because of their preferred status. They receive fixed dividends, generally larger than those paid to common stockholders, and their dividends are paid before common shareholders.

The number of shareholders in a company depends upon the type of company which they are opening.

- For a one-person company, one person is required.
- For a private limited company, two persons are needed.
- For a public limited company, a minimum of seven persons are required.

15.2 SHAREHOLDER'S RIGHTS

A. Appointment of directors

Shareholders play an important role in the appointment of directors. An ordinary resolution is required to be passed by the shareholders for the appointment. Apart from this, shareholders can also appoint various types of directors. They are:

- An additional director who will hold the office until the next general body meeting;
- An alternate director who will act as an alternate director for a period of 3 months;
- A nominee director;
- Director appointed in the case of a casual vacancy in the office of any director appointed in a general meeting in a public company.

Apart from this shareholder also can challenge any resolution passed for the appointment of a director in the general body meeting.

B. Legal action against directors

Shareholders also can bring legal action against director by the rules laid down in the Companies Act 2013. They are:

- Any act done by the director in any manner which is prejudicial against the affairs of the company.
- Any act done which is beyond the law or against the constitution.
- Fraud.
- When the assets of the company are being transferred at an undervalued rate.
- When there is a diversion of funds of the company.
- Any act done in a mala fide manner.

C. Appointment of company auditors

Shareholders also have a right to appoint the company auditors. Under Companies Act 2013, the first auditor of the company is to be appointed by the board of directors. Further the shareholders at the annual general body meeting at the recommendation of directors and audit committee. The appointment is generally done for five years and further can be ratified by passing a resolution in the annual general body meeting.

D. Voting rights

Shareholders also have the right to attend and vote at the annual general body meeting. Every company registered in India should comply with the provisions of the Companies Act 2013. It is mandatory for every Indian company to hold an annual general meeting once in every year. The meeting can be held anywhere at the head office of the company or any other place as given by the company. At the meeting, there are various mandatory agendas which are to be discussed. These include the adoption of financial statements, appointment or ratification of directors and auditors etc.

When a resolution is brought by members of a company then according to the companies act 2013 it can be passed only by the means of voting by the shareholders. Companies Act 2013 recognizes following types of voting:

- Voting by the showing of hands – Every member present in the meeting has one vote. So, in this type of voting shareholders vote just by showing of hands.
- Voting done by polling – In this type of voting the chairman or the shareholders' demand for a poll. However, in the case of differential rights as to voting, a particular class of equity shares may also have weighted voting rights.
- Voting done by electronic means– every company who has more than 1000 shareholders has to put up a facility of voting through online means. Every member should be provided with the means of voting online.
- Voting by means of postal ballot– any resolution in the meeting can also be passed by means of a postal ballot.

A shareholder also has a right to appoint proxy on his behalf when he is unable to attend the meeting. Though the proxy is not allowed to be included in the quorum of the meeting in case of voting, it is allowed by following a procedure mentioned in the Companies Act 2013.

E. Right to call for general meetings

Shareholders have the right to call a general meeting. They have a right to direct the director of a company to can all extraordinary general meeting. They also can approach the Company Law Board for the conduction of general body meeting, if it is not done according to the statutory requirements.

F. Right to inspect registers and books

As shareholders are the main stakeholders in a company, they have the right to inspect the accounts register and also the books of the firm and can ask questions about the same if they feel so.

G. Right to get copies of financial statements

Shareholders have the right to get copies of financial statements. It is the duty of the company to send the financial statements of the company to all its shareholders either in a quarterly or annual statement.

H. The right to sue for wrongful acts:

Executed in the form of shareholder class-action lawsuits, this right protects shareholders against poor management.

i) **The right to influence the fundamental changes in a corporation**: Any cardinal changes require the shareholders' approval.

- Mergers: When two companies become one, the shareholders of the entity being taken over must agree to the merger. The approval of the consuming company's shareholders might be necessary or not, depending on the bylaws. When two entities become an altogether new company, the shareholders of both companies must agree to the merger.
- Sale of assets: To sell any corporate assets, the company must get the approval of the shareholders.

ii) **Winding up of the company**

Before the company is wound up the company has to inform all the shareholders about the same and also all the credit has to be given to all the shareholders.

Other Shareholders' Rights

- When the sale of any material of any company is done then the shareholders should get the amount which they are entitled to receive;

- When a company is converted into another company then it requires prior approval of shareholders. Also, all the appointment has to be done according to all the procedures and also auditors and directors have to be done;

- Right to approach the court in case of insolvency.

15.3 DUTIES OF SHAREHOLDERS

A shareholder doesn’t manage the day to day business of the company as this is handled by the board of directors. There are also responsibilities and duties of shareholders which they should perform. Besides several rights which they have, there exists several duties. They are:

- Shareholders should participate in the general body meetings so that they can see and also can advise on the matters which they feel is not going good.
- Shareholders should consult on the matters of finance and other topics.
- Shareholders should be in touch with other members of the company so that they can see the work progress of the company.

Though it is not possible for shareholders to amend decisions made by directors or interfere with the running of the company, they can convene a general meeting and raise a motion to remove a director, or the full board, or they can amend the articles to restrict the director’s powers.

15.4 LET'S SUM UP

Shareholders thereby play an important role in the functioning of a company. They have various rights which include the appointment of the company’s director, auditor etc., to voting rights and having a say when the company goes insolvent. With every right comes a corresponding responsibility which the shareholder must carry out diligently. If a company liquidates, creditors are the first to have their debts paid from the company's assets. Bondholders are the next in line to receive any proceeds from liquidation. Common shareholders are the last to have any debts paid from the liquidating company's assets. Common shareholders are granted six rights: voting power, ownership, the right to transfer ownership, dividends, the right to inspect corporate documents, and the right to sue for wrongful acts

15.5 KEYWORDS

- **Rights:** Rights are legal, social, or ethical principles of freedom or entitlement; that is, rights are the fundamental normative rules about what is allowed of people or owed to people, according to some legal system, social convention, or ethical theory.

- **Duties:** A moral or legal obligation; a responsibility. A task or action that one is required to perform as part of one's job.

- **Financial Statements:** Financial statements are reports prepared by a company's management to present the financial performance and position at a point in time.

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15.7 TERMINAL QUESTIONS

Q1 What are the rights of a Shareholder in a company?

Q2 Discuss the basic duties of a shareholder.

Q3 Write a note on the followings.

Q4 What are the types of shareholder’s voting the Companies Act 2013 recognizes?

Q5 What are the circumstances under which, the shareholders can take legal action against the directors?