

An empirical study on SEBI: A credible and effective investigator

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Abstract

For a growing and dynamic economy like India, capital markets play an important role in not just attracting domestic and foreign investment but also mirror the state of affairs in our country. In order to present the Indian dream favorable hub of investors, it is important that our capital markets have a strong and non-manipulative infrastructure. To ensure this, there is Securities and Exchange Board of India (SEBI) - capital market regulator of India. With the advent of new technology, SEBI will have to continuously upgrade its manpower and improve its capacities to deal with situations of corporate frauds.

The study is analytical in nature and used secondary data analysis to attain its objectives. The data used for the study covers seventeen years from 1998-99 to 2014-15. Both descriptive and inferential statistics are used. It is witnessed that Compound Annual growth rate of total number of investigation taken-up and completed during the study period are at snail's pace. Number of investigation taken-up and completed is decreased with increase in number of companies listed on NSE during the study period. More than 95% of the investigation taken-up is completed during the study period. In nutshell, it is said that SEBI- a credible and effective regulator.

Keywords: CAGR (Compound Annual Growth Rate), C.V (Coefficient of Variation)

1. Introduction

For a growing and dynamic economy like India, capital markets play an important role in not just attracting domestic and foreign investment but also mirror the state of affairs in our country. In order to present the Indian dream favourable destiny of investors' hub, it is important that our capital markets have a strong and non-manipulative infrastructure. To ensure this, there is Securities and Exchange Board of India (SEBI) - capital market regulator of India. SEBI is a quasi-legislative, quasi-judicial and quasi-executive body. It can draft regulations, conduct inquiries, pass rulings and impose penalties. All decisions taken by SEBI are collectively taken by its Board that consists of a Chairman and eight other members.

SEBI in its short journey of 25 years, has to its credit many achievements that are unparalleled in the Indian financial space. SEBI distinguishes itself from other regulators in India as it is a financially independent regulator with its own sources of revenue. A report published by International Organization of Securities Commissions - IOSCO under its Financial Sector Assessment Program - FSAP acknowledged that the comprehensive risk management framework prescribed by SEBI is one of the pillars of the Indian securities settlement system. It further said that the Indian capital markets' regulator has successfully prevented occurrence of any major defaults in the last decade.

Despite these, corporate frauds like corruption, money laundering siphoning-off funds, information theft, theft of physical assets and bribery in India have risen substantially in the last few years, a survey by Grant Thornton and ASSOCHAM. These frauds have been dissuading global companies from investing in India. According to a survey conducted by FICCI-Pinkerton India Risk Survey 2015,

corporate frauds is ranked as the topmost risk in the entire economic system of the country. The survey identified 12 key risks that pose a threat to the entire economic system of the country. This is followed by information and cyber risks.

Corporate fraud consists of activities undertaken by an individual or company that are done in a dishonest or illegal manner, and are designed to give an advantage to the perpetrating individual or company. It is considered a white collar crime.

Corporate fraud can be difficult to prevent and to catch. By creating effective policies, a system of checks and balances and physical security, a company may limit the extent to which fraud can take place.

With the advent of new technology, SEBI will have to continuously upgrade its manpower and improve its capacities to deal with situations of corporate frauds. It creates a more robust framework in successfully dealing with the menace of market manipulation and price rigging, issue related manipulation, insider trading and takeovers; strict implementation of buyback norms; strongly handling the issue of fraudulent collective investment schemes; strengthening the supervision of securities market intermediaries including fund managers; strengthening the stress-testing procedures of the central counterparties - CCPs and improving the liquidity risk management.

2. Objectives of the study

1. To study how effectively SEBI is taking-up and completing cases for investigation against complaints and
2. To provide findings/ results based on analysis.

3. Research Methodology

The study is based on secondary data covering from 1998-99

to 2014-15. The data has been collected from sebi.gov.in. Various other reports like magazines, journals, published books and other websites are also referred to for the present study.

4. Sources of data

Tools of analysis

The data collected for the study is analysed logically and meaningfully to arrive at meaningful conclusions. The statistical tools applied for data analysis in the present study are descriptive and inferential statistics. E-views 7.1 version is used

Based on objectives, the hypotheses formed for analysis are:

H1: There is no significant mean difference among variables of investigation taken up and completed by SEBI.

H2: There is equal variance among variables of investigation taken up and completed by SEBI.

H3: There is equal Median among variables of investigation taken up and completed by SEBI.

5. Results / Findings

1. There is annual average total of 101 and 97 cases of investigations taken-up and completed by SEBI ranging from maximum 165 and 179 cases and minimum 25 and 21 cases respectively during the study period. Compound Annual Growth Rate (CAGR) and consistency (C.V.) of investigations taken-up and completed are 1.5% and 4.5% and 0.015 and 0.045 respectively over the study period. It records the highest 15.4% and 3.5% and the least of 1.8% and 0.9% of total number of companies listed in cash segment of NSE and BSE. More than 95% of the investigation taken-up is completed during the study period.
2. Not less than ½ of the total investigations taken-up and completed by SEBI are from the cases of market manipulation and price rigging registering CAGR and C.V. of 2% and 6.6% and 0.453 and 0.568 respectively. The highest 12.8% and 15.3% and the lowest of 2.9% and 3.1% of total number of companies listed in cash segment of NSE and BSE are taken-up and completed investigation of market manipulation and price rigging cases.
3. Investigation of issues related manipulation are widely scattered with C.V. of more than 1.5. They are not more than 28% and 44% of total investigation taken-up and completed during the study period respectively. They are

2% and 1% of total companies listed on the NSE and BSE respectively.

4. On an annual average of 12 cases of insider trading are taken-up and completed for an investigation, during the study period. Maximum of 28 cases and minimum of 3 cases are found in the study period. There is CAGR of 1% in both the cases of investigation taken up and completion. There is consistency in these cases. These cases are about 2% of total companies listed on the NSE and BSE respectively.
5. Not more than 9 and 7 takeover cases of investigation are taken up and completed respectively during the study registering both CAGR of -0.042% and consistency 0.5. They are not more than 1% of total companies listed on NSE and BSE.
6. There is an annual average of 10 miscellaneous cases of investigation both taken up and completed incorporating CAGR of 17.4% and 10% respectively during the study period. They are not more than 2% of total companies listed on NSE and BSE.

i) parametric tests

On hypotheses testing of Equality of Means among the variables of nature of investigation taken-up and completed at 95% confidence level under methods of ANOVA and Welch 'F' test; they are evident that null hypotheses are rejected since their prob. values are 0.0 and 0.0 respectively. Hence there are significant mean differences among the variables of nature of investigation taken-up and completed at 95% confidence level.

Similarly, under Bartlett, Levene and Brown-Forsythe Test for Equality of Variances, it is found that null hypotheses are denied since their prob. values are 0.0, 0.0 and 0.0 respectively. Hence, there are no equality of variances among the variables of nature of investigation taken-up and completed at 5% level of significance.

ii) Non-parametric tests

Alternative hypotheses are accepted since their prob. values are 0.0, 0.0, 0.0, 0.0 and 0.0 respectively under hypotheses testing of Med. Chi-square, Adj. Med. Chi-square, Kruskal-Wallis, Kruskal-Wallis (tie-adj.) and van der Waerden. Hence, there are no equality of medians among the variables of nature of investigation taken-up and completed at 5% level of significance.

Table 1: Nature of Investigations Taken- up and Completed by SEBI

Year	Market manipulation and price rigging		Issue related manipulation		Insider trading		Takeovers		Miscellaneous		Total	
	Investigation Taken	Investigation Completed	Investigation Taken	Investigation Completed	Investigation Taken	Investigation Completed	Investigation Taken	Investigation Completed	Investigation Taken	Investigation Completed	Investigation Taken	Investigation Completed
98-99	40	31	4	16	4	4	6	6	1	3	55	60
99-00	47	37	2	8	3	5	1	0	3	7	56	57
00-01	47	27	5	8	6	4	1	3	9	4	68	46
01-02	86	11	1	0	16	6	1	1	7	3	111	21
02-03	95	72	2	8	13	14	9	7	6	5	125	106
03-04	96	122	2	3	14	9	2	3	7	15	121	152
04-05	110	148	2	2	7	10	1	2	10	17	130	179
05-06	137	62	3	1	6	8	4	3	15	7	165	81
06-07	95	77	0	4	18	10	2	3	5	8	120	102
07-08	12	115	0	3	7	28	2	2	4	21	25	169
08-09	52	62	2	1	14	12	3	1	5	7	76	83
09-10	44	46	2	7	10	10	2	5	13	6	71	74
10-11	56	51	6	2	28	15	4	4	10	10	104	82
11-12	73	37	35	4	24	21	2	2	20	10	154	74
12-13	86	41	43	52	11	14	3	2	12	10	155	119
13-14	67	73	6	12	13	13	6	6	16	16	108	120
14-15	41	86	3	3	10	15	3	3	13	15	70	122

Table 2: Descriptive statistics of Nature of Investigations Taken-up and completed by SEBI

	Market manipulation and price rigging		Issue related manipulation		Insider trading		Takeovers		Miscellaneous		Total	
	Investigation Taken	Investigation Completed	Investigation Taken	Investigation Completed	Investigation Taken	Investigation Completed	Investigation Taken	Investigation Completed	Investigation Taken	Investigation Completed	Investigation Taken	Investigation Completed
Mean	69.64	64.588	6.941	7.882	12.000	11.647	3.059	3.313	9.176	9.647	100.82	96.882
Median	67.00	62.000	2.000	4.000	11.000	10.000	2.000	3.000	9.000	8.000	108.00	83.000
Maximum	137.0	148.000	43.000	52.000	28.000	28.000	9.000	7.000	20.000	21.000	165.00	179.000
Minimum	12.00	11.000	0.000	0.000	3.000	4.000	1.000	1.000	1.000	3.000	25.000	21.000
Std. Dev.	31.52	36.715	12.275	12.139	6.792	6.184	2.193	1.815	5.139	5.361	40.038	43.126
Skewness	0.291	0.783	2.341	3.042	0.860	1.048	1.353	0.692	0.379	0.605	-0.100	0.337
Kurtosis	2.572	2.891	6.787	11.639	3.196	4.066	4.237	2.400	2.375	2.293	2.059	2.450
Jarque-Bera	0.370	1.745	25.686	79.074	2.123	3.915	6.267	1.518	0.685	1.392	0.655	0.537
Probability	0.831	0.418	0.000	0.000	0.346	0.141	0.044	0.468	0.710	0.499	0.721	0.765
Sum	1184.	1098.000	118.00	134.000	204.00	198.000	52.000	53.000	156.00	164.000	1714.0	1647.000
Sum Sq. Dev.	15901	21568.1	2410.9	2357.765	738.00	611.882	76.941	49.438	422.47	459.882	25648	29757.76
Observations	17.000	17.000	17.000	17.000	17.000	17.000	17.000	16.000	17.000	17.000	17.000	17.000
C.V.	0.453	0.568	1.768	1.540	0.566	0.531	0.717	0.548	0.560	0.556	0.397	0.445
CAGR	0.002	0.066	-0.018	-0.099	0.059	0.086	-0.042	-0.042	0.174	0.106	0.015	0.045

Table 3: Ratio of investigation taken-up and completed to number of listed companies on BSE and NSE

Year	No. of Listed Companies in BSE	No. of Listed Companies in NSE	Market manipulation and price rigging		Issue related manipulation		Insider trading		Takeovers		Miscellaneous		Total	
			Investigation Taken (%)	Investigation Completed (%)	Investigation Taken (%)	Investigation Completed (%)	Investigation Taken (%)	Investigation Completed (%)	Investigation Taken (%)	Investigation Completed (%)	Investigation Taken (%)	Investigation Completed (%)	Investigation Taken (%)	Investigation Completed (%)
98-99	5849		0.007	0.005	0.001	0.003	0.001	0.001	0.001	0.001	0.000	0.001	0.009	0.010
		648	0.062	0.048	0.006	0.025	0.006	0.006	0.009	0.009	0.002	0.005	0.085	0.093
99-00	5815		0.008	0.006	0.000	0.001	0.001	0.001	0.000	0.000	0.001	0.001	0.010	0.010
		720	0.065	0.051	0.003	0.011	0.004	0.007	0.001	0.000	0.004	0.010	0.078	0.079
00-01	5869		0.008	0.005	0.001	0.001	0.001	0.001	0.000	0.001	0.002	0.001	0.012	0.008
		785	0.060	0.034	0.006	0.010	0.008	0.005	0.001	0.004	0.011	0.005	0.087	0.059
01-02	5782		0.015	0.002	0.000	0.000	0.003	0.001	0.000	0.000	0.001	0.001	0.019	0.004
		793	0.108	0.014	0.001	0.000	0.020	0.008	0.001	0.001	0.009	0.004	0.140	0.026
02-03	5650		0.017	0.013	0.000	0.001	0.002	0.002	0.002	0.001	0.001	0.001	0.022	0.019
		818	0.116	0.088	0.002	0.010	0.016	0.017	0.011	0.009	0.007	0.006	0.153	0.130
03-04	5528		0.017	0.022	0.000	0.001	0.003	0.002	0.000	0.001	0.001	0.003	0.022	0.027
		909	0.106	0.134	0.002	0.003	0.015	0.010	0.002	0.003	0.008	0.017	0.133	0.167
04-05	4731		0.023	0.031	0.000	0.000	0.001	0.002	0.000	0.000	0.002	0.004	0.027	0.038
		970	0.113	0.153	0.002	0.002	0.007	0.010	0.001	0.002	0.010	0.018	0.134	0.185
05-06	4781		0.029	0.013	0.001	0.000	0.001	0.002	0.001	0.001	0.003	0.001	0.035	0.017
		1069	0.128	0.058	0.003	0.001	0.006	0.007	0.004	0.003	0.014	0.007	0.154	0.076
06-07	4821		0.020	0.016	0.000	0.001	0.004	0.002	0.000	0.001	0.001	0.002	0.025	0.021
		1228	0.077	0.063	0.000	0.003	0.015	0.008	0.002	0.002	0.004	0.007	0.098	0.083
07-08	4887		0.002	0.024	0.000	0.001	0.001	0.006	0.000	0.000	0.001	0.004	0.005	0.035
		1381	0.009	0.083	0.000	0.002	0.005	0.020	0.001	0.001	0.003	0.015	0.018	0.122
08-09	4929		0.011	0.013	0.000	0.000	0.003	0.002	0.001	0.000	0.001	0.001	0.015	0.017
		1432	0.036	0.043	0.001	0.001	0.010	0.008	0.002	0.001	0.003	0.005	0.053	0.058
09-10	4875		0.009	0.009	0.000	0.001	0.002	0.002	0.000	0.001	0.003	0.001	0.015	0.015
		1470	0.030	0.031	0.001	0.005	0.007	0.007	0.001	0.003	0.009	0.004	0.048	0.050
10-11	5067		0.011	0.010	0.001	0.000	0.006	0.003	0.001	0.001	0.002	0.002	0.021	0.016
		1574	0.036	0.032	0.004	0.001	0.018	0.010	0.003	0.003	0.006	0.006	0.066	0.052
11-12	5133		0.014	0.007	0.007	0.001	0.005	0.004	0.000	0.000	0.004	0.002	0.030	0.014
		1646	0.044	0.022	0.021	0.002	0.015	0.013	0.001	0.001	0.012	0.006	0.094	0.045
12-13	5211		0.017	0.008	0.008	0.010	0.002	0.003	0.001	0.000	0.002	0.002	0.030	0.023
		1666	0.052	0.025	0.026	0.031	0.007	0.008	0.002	0.001	0.007	0.006	0.093	0.071
13-14	5336		0.013	0.014	0.001	0.002	0.002	0.002	0.001	0.001	0.003	0.003	0.020	0.022
		1688	0.040	0.043	0.004	0.007	0.008	0.008	0.004	0.004	0.009	0.009	0.064	0.071
14-15	5624		0.007	0.015	0.001	0.001	0.002	0.003	0.001	0.001	0.002	0.003	0.012	0.022
		1733	0.024	0.05	0	0.002	0.006	0.009	0.002	0	0.01	0.009	0.04	0.0704

Table 4: Test for Equality of Means between Series

Sample Size: 17			
Methods:	df	Value	Probability
1. ANOVA F-test	(11, 191)	47.4265	0
2. Welch F-test*	(11, 73.7317)	31.7674	0
*Test allows for unequal cell variances			
Analysis of Variance			
Source of Variation	df	Sum of Sq.	Mean Sq.
Between	11	273147	24831.5
Within	191	100004	523.579
Total	202	373150	1847.28

Table 5: Test for Equality of Medians between Series

Sample Size : 17			
Methods	df	Value	Probability
1. Med. Chi-square	11	122.5275	0
2. Adj. Med. Chi-square	11	106.7858	0
3. Kruskal-Wallis	11	155.0834	0
4. Kruskal-Wallis (tie-adj.)	11	155.3818	0
5. van der Waerden	11	145.3914	0

Table 6: Test for Equality of Variances between Series

Sample Size: 17			
Methods:	df	Value	Probability
1. Bartlett	11	295.9586	0
2. Levene	(11, 191)	17.3953	0
3. Brown-Forsythe	(11, 191)	13.55964	0
Bartlett weighted standard deviation: 22.88184			

6. Conclusion

From the analyses, it is witnessed that Compound Annual growth rate of total number of investigation taken-up and completed during the study period are at snail's pace. Number of investigation taken-up and completed is decreased with increase in number of companies listed on NSE during the study period. More than 95% of the investigation taken-up is completed during the study period. Effective mechanism and measures for investigating regularly are undertaken to prevent frauds, yet it has to strengthen its regulatory measures to arrest frauds in general and insider trading cases in particular on war-footing; otherwise it will have disastrous effect on survival and sustenance of Corporate India. In nutshell, it is said that SEBI- a credible and effective regulator.

7. References

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