Keynote address by
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"Maintaining Market Integrity – SEBI's Role and Initiatives"
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I am delighted to be here today at Mint's India Investment Summit and offer some reflections on SEBI's Role and Initiatives in maintaining market integrity.

SEBI, as you know, has been entrusted with three important mandates as the regulator for the securities market - to protect investor interest, to promote the development of the market and to regulate the market. The initiatives of SEBI to maintain market integrity play an important role in meeting each of the above mandates.

Market integrity

Over the years, the Indian securities market has played a crucial role in channelizing savings into productive investments, thereby promoting capital formation and accelerating economic growth. Businesses can raise capital efficiently through equity and debt markets, thus reducing reliance on bank funding. Indeed, even the banks themselves raise substantial equity and debt resources from securities market.

One of the fundamental principles for securities market regulation is to ensure market integrity at all times - which implies that the market functions safely, fairly and transparently. Safety of assets and transparency of information are paramount for investors, big and small. Any lack of confidence will move them towards unregulated markets. Similarly, market intermediaries, who handle these assets for the investors, must have faith that they will have equal access to the markets, price discovery will be fair and market abuse will be curbed.

Market integrity: Role of SEBI and Initiatives taken

Regulations:

SEBI's formulation of regulations are geared towards the orderly development of the securities market. For example, we prescribe registration requirements and standards for intermediaries who wish to operate in the market, ensuring that only 'fit and proper' persons are licenced to operate in the market.

Broadly, the reforms initiated by SEBI are aimed at enhancing efficiency, transparency and robustness of the market. Going forward, we will be looking to review regulations, weed out those which are outdated and rationalize those which may be necessary. This will be consistent with our objective of achieving optimum regulation and creating ease of doing business by reducing compliance burden and the 'cost of regulation'.

SEBI prescribes norms for issuers of securities to ensure that funds are raised without delay and deployed efficiently. Internally, SEBI is using technology, including artificial intelligence, to ensure that fund raising documents are cleared as fast as possible, without compromising on disclosures. Investor interest is secured at all times by having a disclosure based regime in place. Recently, SEBI prescribed quantitative thresholds for determining materiality, as per which a listed entity is required to make disclosure of the event/information. The aim of having such materiality thresholds is to bring about information symmetry for investors.

The Market Infrastructure Institutions i.e., the MIIs, viz., the Stock Exchanges, the Depositories and the Clearing Corporations, act as the first level regulators for issuers of securities as well as for intermediaries. The MIIs are entrusted with the responsibility of providing equal, unrestricted, transparent and fair access to all market participants. In fact, they are the first line of defence to ensure investor protection and market integrity.

In India, we have chosen a model that allows competition, public shareholding and profits for MIIs; which fosters efficiency in operations, encourage innovation, and provides natural back-ups. Further, adequate safeguards have been put in place to ensure that commercial goals of MIIs do not compromise their primary role of serving public interest and to act as first line regulator. This is essential to foster long term confidence in the markets ecosystem and to ensure stability of our securities markets. Towards this end, SEBI has ensured that the MIIs are strengthened on the front of governance and technology. Let me illustrate with some examples:

- On the governance front, we have ensured that the Governing Board of the MII is equipped to ensure that public interest is not overshadowed by the operations of the MII. The Public Interest Directors (PIDs), appointed by SEBI, play this vital role. SEBI will continue to engage with the PIDs of MIIs, collectively as well as individually, to have a better understanding of the operations and risks within the MIIs.

- On the front of technology, we have taken initiatives to build redundancies and resilience in the IT infrastructure of MIIs. Faster restoration of critical systems in case of disaster is expected to significantly mitigate the loss to the investors.

We have also upgraded our supervision of MIIs significantly over the past few years and intend to further invest in enhancing our systems, particularly in the area of technology. Going ahead, we have instituted independent external evaluation of the MIIs once every three years, which will supplement our own supervision.

SEBI will continue to follow a robust and transparent consultative process when formulating any regulatory requirement, wherein all stakeholders are consulted at every stage. As a step towards demonstrating its strong commitment to stakeholder engagement and transparency, SEBI has institutionalised its practices into a regulation, which lays down the procedure as to how regulations will be made and how amendments will be carried out. A provision of review of regulations has also been codified to ensure their relevance with changing market dynamics.

Enforcing Regulations through Supervision:

SEBI also has to enforce these regulations to deter misconduct on part of market participants. This enforcement is carried out through a judicious mix of offsite supervision and onsite and thematic inspections.

As part of offsite supervision, SEBI has developed a robust in-house alert system based on periodic reporting done by the intermediaries. Automated alerts are generated on the data to detect non-compliance with regulatory requirements and appropriate action is taken. Offsite supervision enables SEBI to cover more intermediaries and is a move away from the earlier sample-based supervision. An additional benefit of such automated alerts is to reduce the gap in interpretation of applicable laws and regulations and provide complete clarity to intermediaries. This aids in reducing cost of compliance.

Market intermediaries are also supervised through onsite and thematic inspections. Where applicable, these inspection visits are made along with teams from concerned MIIs so as to reduce the compliance burden on intermediaries.

While SEBI ensures that market participants are adequately supervised, egregious behaviour of intermediaries with respect to client assets cannot be ruled out and cannot be tolerated. SEBI has been regularly taking various initiatives towards protection of client assets, as asset safety is important for investors to have confidence in the markets.

Another important aspect maintaining market integrity is to ensure that market participants are not only aware of their compliance requirements but also know how to ensure compliance. Towards this end, Industry Standards Forum is a useful innovation through which practitioners in the market and industry associations come together to develop uniform compliance standards in consultation with SEBI.

While SEBI will continue to enhance its supervision capabilities, it is desirable that market participants are also nudged towards voluntary compliance with regulations.

Action on market misconduct:

SEBI has embraced the use of latest technology and data analytics to detect market misconduct, such as, insider trading, front running, price manipulation and financial statement frauds.

Trades in secondary market are under surveillance on a daily basis and alert systems have been put in place to detect suspicious patterns of trading. Market intelligence in the form of investors complaints as well as posts on social media also form an important part of SEBI's surveillance mechanism. We are also regularly collaborating with other Regulators and with law enforcement agencies for pooling of information in order to take more informed enforcement actions.

SEBI's enforcement process has evolved over the years in line with the changing market dynamics as well as with evolving jurisprudence in securities laws. A range of enforcement actions are available with SEBI – from warning/ censure for technical/ procedural violations to debarment/ disgorgement of illegal gains/ cancelation of registration for serious violations. There are sufficient internal checks and balances to ensure that the right level of enforcement action is taken and that entities are given opportunities to take corrective steps for merely technical/ procedural violations. This ensures uniformity of action and does away with arbitrary enforcement actions on part of the Regulator.

SEBI is also empowered to pass interim, ex-parte directions in the interest of investors in certain cases. Such directions are passed to restrain entities from practices that are adversely impacting market integrity.

SEBI has also taken steps to strengthen its investigation and inspection process by building capacity within internal teams and by relying on technology for obtaining data and analyzing the same. The improvement in strength of SEBI's investigation and enforcement process can be gauged from the fact that more entities are now filing for settlement rather than litigating the matter and the settlement proportion has increased to 40%. We will further encourage this trend.

The increasing proliferation of misleading content on stock markets on various social media platforms leads to a lot of gullible investors putting their savings into investments which do not meet their risk profile. SEBI has been monitoring social media platforms to identify such misleading content and has successfully worked with respective platforms to take down such content before the damage is widespread.

Investor awareness and education

This is one pillar where a lot of work still needs to be done. The markets are changing rapidly and it has to be ensured that investors keep pace with this change. Towards this end, our role in building investor awareness and education is very crucial.

We intend to work with entire market eco-system to launch a more comprehensive awareness program for investor awareness including on the pernicious cyber-frauds and risks.

Resolution of investor grievances:

SEBI has put in place a robust grievance redressal facilitation mechanism for investors. This mechanism, also known as SEBI Complaint Redressal System or SCORES, has been recently revamped. The new SCORES has reduced the time taken to resolve grievances and also provides for a two-level review for effective redressal of grievances.

The Online Dispute Resolution (ODR) system, which utilizing processes such as mediation and arbitration, has also been put in place to resolve grievances. As on date, around 5600 disputes have been resolved through ODR with the claim value of around Rs. 390 crores.

Towards a new Conflict of Interest Framework in SEBI

Trust and transparency are crucial not only for regulated entities but also for functioning of SEBI as well. As a step in this direction, the Board has recently decided to constitute a High-Level Committee to undertake a comprehensive review of the provisions relating to Conflict of Interest for Members and Officials of the Board and make recommendations for an appropriate framework for preventing, mitigating and managing conflict of interest, including a recusal policy, and disclosure requirements which cover public disclosures.

Conclusion:

In conclusion, I would say that in a dynamic and complex security market, maintaining market integrity is a continuing challenge. SEBI has successfully teamed up with the MIIs and market intermediaries to build robust market integrity. SEBI's initiatives in this regard span a wide range - regulations, technology, supervision, surveillance, enforcement, investor awareness and resolution of investor grievances. Going forward, we need to constantly update and innovate in all these areas keeping in mind optimum yet effective regulatory stance. This can only be achieved through commitment and collaboration across various teams comprising members drawn from external stakeholders and officers of SEBI. Towards this end, we will march ahead.

Once again, I thank Mint for giving me an opportunity to share my views on this important subject.

Thank you all!