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THE ROLE OF SEBI IN REGULATING INDIA’S CAPITAL MARKETS: AN OVERVIEW

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INTRODUCTION

The capital markets of India plays a significant role within the country’s financial system because they provide businesses with access to funding and let investors increase their wealth. For the development of financial markets, they must be properly regulated to ensure reliability and transparency. In India, the Securities and Exchange Board of India (SEBI) acts as the central body that regulates fair and effective functioning of securities and capital markets. SEBI keeps financial markets trustworthy and fair by promoting sustainable economic growth and protecting investors. This blog delves into the role of SEBI in regulating India’s capital market, emphasizing its functions and some recent reforms introduced under its framework.

ORIGIN AND ESTABLISHMENT OF SEBI

Numerous instances of price manipulation, insider trading, and fraud resulted from the absence of a robust regulatory body. Under the Capital Issues (Control) Act, 1947, the Controller of Capital Issues (CCI) governed India’s capital market before SEBI was established.¹ The CCI lacked the autonomy to deal with the issues associated with the growing economy which led to the formation of SEBI. SEBI was constituted as a non-statutory body on April 12, 1988 through a resolution of Government of India. It gained statutory status in the year 1992 and the provisions of the Securities and Exchange Board of India Act, 1992 came into effect on January 30, 1992.²

¹Business Standard, <https://www.business-standard.com/about/what-is-sebi> (last visited July 31, 2025).

²Securities and Exchange Board of India, *About SEBI*, SEBI, <https://www.sebi.gov.in/about-sebi.html> (last visited July 29, 2025).

FUNCTIONS OF SEBI:

- **Protective Function-** SEBI's main concern is safeguarding investors by encouraging equity and transparency in the securities market. Protective functions of SEBI includes: promoting fair practice, educate investors, prohibiting unfair trade practices and fraudulent, price rigging, and prohibiting insider trading.
- **Regulatory Functions-** The main responsibility of SEBI is to monitor and manage the stock exchange in accordance with established rules and regulations.³ The essential regulatory duties of SEBI are: enforcing compliance, managing both the primary and secondary markets, governing stock exchange, and supervising intermediaries.
- **Developmental Functions-** This aspect emphasizes the modernization and improvement of the capital market. SEBI promotes innovations such as share dematerialization, electronic trading, and the establishment of platforms for startups. Additionally, it conducts educational programs for investors to raise financial literacy and build trust.

SEBI'S ROLE IN REGULATING CAPITAL MARKETS

- **Investor Protection-** Safeguarding investors is a fundamental aspect of SEBI's responsibilities. It guarantees that investors obtain timely and correct information, fair grievance resolution, and educational resources. SEBI also provides education to investors about the securities and capital markets along with the risks associated with them.⁴
- **Combating Market Malpractices-** SEBI has a thorough surveillance system designed to spot and stop malpractices like price manipulation and insider trading. SEBI's Integrated Market Surveillance System (IMSS) tracks real-time market activities and spot unusual transaction patterns.⁵ SEBI has the authority to suspend trading activities and impose penalties in the event that any malpractice is detected.
- **Promoting Financial Innovation-** SEBI has been instrumental in modernizing financial ecosystem. It has established a number of frameworks for new financial instruments and

³Deepa Singh Yadav & M.P. Verma, *Regulatory Role and Functions of Securities Exchange Board of India*, 4 Int'l J. Crim. Common & Stat. L. 41, 42 (2024), <https://www.criminallawjournal.org/article/66/4-1-9-741.pdf>.

⁴Prakash G M., *Regulatory Role of SEBI in Indian Capital Markets*, 4 IJRAR 592, 594 (2017), <https://www.ijrar.org/papers/IJRAR19D5553.pdf>.

⁵Riya Dey, *Measures by SEBI to Curb Stock Market Manipulation*, DHAN BLOG (May 05, 2025), <https://blog.dhan.co/measures-by-sebi-to-curb-stock-market-manipulation/>.

platforms, such as Real Estate Investment Trusts (REITs) and Infrastructure Investment Trust (InvITs). By adopting technology to enhance market infrastructure, SEBI has expanded the investment options and attracted a wide range of participants to the market.

- **Regulation of Market Intermediaries-** SEBI supervises a variety of market intermediaries, including credit rating agencies, stockbrokers, depositors, and mutual funds. By introducing codes of conduct, eligibility criteria and registration procedures, SEBI guarantees transparent and professional operation of these intermediaries.

RECENT REFORMS AND DEVELOPMENTS

In recent years, SEBI has implemented a number of reforms to enhance the capital market of India. The adoption of the T+1 settlement cycle for all listed securities positions India as the first major economy to embrace this system. The T+1 settlement has helped decrease the requirement for supplementary capital and has lowered counterparty risk for investors during reinvestment.⁶ In an effort to align Indian markets with international sustainability benchmarks, SEBI has required the top 1,000 listed companies to disclose their Environmental, Social, and Governance (ESG) information under the Business Responsibility and Sustainability Reporting (BRSR) framework.⁷ In the mutual fund sector, SEBI has implemented steps to enhance transparency and safeguard investors. SEBI has also strengthened corporate governance standards by stricter rules concerning related-party transactions, disclosure obligations, and board structure.

CONCLUSION

The Securities and Exchange Board of India has been instrumental in developing India's capital markets into a transparent, investor-centric, and contemporary environment. By its extensive regulatory framework, SEBI has encouraged market growth, mitigated malpractices, and safeguarded investors. Its initiatives have transformed India's capital markets into a trusted platform for generating wealth and fostering economic advancement. With the evolution of financial environment, the capacity of SEBI to maintain, adapt, and innovate its fundamental

⁶BAJAJ FINSERV, <https://www.bajajfinserv.in/t1-settlement> (last visited July 31, 2025).

⁷Monica Kharola, Surbhi Goyal & Surya Saxena, *Mandatory ESG Reporting in India: Legal Obligations and Management Strategies*, 2 J. Marketing & Soc. Res. 167 (2025), <https://jmsr-online.com/article/mandatory-esg-reporting-in-india-legal-obligations-and-management-strategies-63/>.

objectives will guarantee that the capital markets of India continue to flourish on the international stage.