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SEBI'S ROLE IN PROTECTING INVESTORS AND ENSURING CORPORATE GOVERNANCE

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Abstract

India's securities market has grown from a loosely supervised trading floor into one of the largest capital-raising ecosystems in the world, a transition that owes much to the Securities and Exchange Board of India (SEBI). This article examines SEBI's statutory role in protecting investors and strengthening corporate governance, tracing its evolution from a non-statutory body created before the 1992 securities scam to a regulator with wide investigative, quasi-judicial, and quasi-legislative powers. The central research problem is whether SEBI's expanding regulatory toolkit has kept pace with the sophistication of market misconduct and governance failures in listed companies. Drawing on the SEBI Act, 1992, associated regulations, and landmark judicial pronouncements, the article evaluates SEBI's enforcement record, its disclosure-based governance architecture, and recent reforms concerning finfluencers, ESG reporting, and settlement cycles. It finds that while SEBI has built a reasonably robust framework of rules and precedent, enforcement delays, resource constraints, and the cross-border nature of modern fraud continue to limit its effectiveness. The article closes with targeted suggestions for reform.

Keywords: *SEBI, investor protection, corporate governance, securities regulation, insider trading, disclosure norms, market enforcement*

1. Introduction

Every securities market rests on a simple promise: that a person putting money in will get a fair account of what she is buying, and a fair chance of recovering it if things go wrong. Indian capital markets did not always keep that promise. Through the 1980s, trading was governed largely by exchange bye-laws and executive instructions under the Capital Issues (Control) Act, 1947, a regime built for a controlled economy.[1] Pricing of new issues was fixed by government fiat, disclosure was minimal, and no independent body existed to investigate market misconduct. As trading volumes grew, so did the opportunities for manipulation, and the gap between the law's ambition and its enforcement machinery became difficult to ignore.

Investor protection and corporate governance are two sides of the same coin: the first requires that the market itself be honest, the second that companies raising money from the public be run by boards accountable to shareholders rather than to controlling promoters alone. SEBI was conceived to address both concerns through a single institution, combining rule-making, supervision, and enforcement rather than distributing these functions across government departments.[2] This article traces that institutional history, examines the statutory architecture SEBI now administers, and evaluates through case law and recent reforms, how effectively SEBI discharges its twin mandate, closing with the structural challenges that remain.

2. Evolution of SEBI

Before 1992, the Controller of Capital Issues regulated the pricing and quantum of public issues, while stock exchanges were left largely to self-regulation under the Securities Contracts (Regulation) Act, 1956.[3] This arrangement proved inadequate when the securities scam of April 1992 was exposed, revealing how stockbroker Harshad Mehta had exploited weaknesses in the banking system's settlement process to divert funds into a rigged rally on the Bombay Stock Exchange.[4] The episode, running into thousands of crores of rupees, exposed the absence of any agency empowered to investigate manipulation or penalise brokers and banks acting in concert.

SEBI had already been set up in 1988 as a non-statutory body under a government resolution, with advisory functions only and no enforcement powers.[5] The Mehta scandal accelerated a gradual legislative process. Parliament enacted the Securities and Exchange Board of India Act, 1992, giving SEBI statutory status and, shortly after, powers of investigation, search and seizure, and

[1]Capital Issues (Control) Act, 1947, No. 29, Acts of Parliament, 1947 (India) (repealed 1992).
[2]See Securities and Exchange Board of India Act, 1992, No. 15, Acts of Parliament, 1992, pmbl. (India).
[3]Securities Contracts (Regulation) Act, 1956, No. 42, Acts of Parliament, 1956 (India).
[4]See Sucheta Dalal & Debashis Basu, The Scam: Who Won, Who Lost, Who Got Away (1993).
[5]Ministry of Finance, Government of India, Resolution Establishing the Securities and Exchange Board of India (Apr. 12, 1988).

monetary penalty.[6] The Act's preamble records its object as protecting investor interests, promoting the development of the securities market, and regulating that market.[7] Its powers were repeatedly widened thereafter: the Securities Laws (Amendment) Act, 1995 empowered it to register and regulate intermediaries, and the Securities Laws (Amendment) Act, 2014 added search-and-seizure powers and the ability to attach assets.[8] What began as a reactive response to a single scandal has become a standing regulatory architecture spanning primary and secondary markets and corporate disclosure.

3. Legal Framework Governing SEBI

The SEBI Act, 1992 remains the foundational statute. Section 11 casts a broad duty on SEBI to protect investor interests and regulate the market "by such measures as it thinks fit," a formulation the Supreme Court has read as conferring wide, purposive authority rather than a narrow, enumerated list of powers.[9] Sections 11B and 11(4) allow SEBI to issue directions and interim orders, including suspension of trading and impounding of proceeds, without waiting for a full inquiry where investor interest so requires. Chapter VIA sets out a schedule of monetary penalties for specific defaults, and Section 15-I governs adjudication.[10] Appeals lie to the Securities Appellate Tribunal under Section 15T, and a further appeal on a question of law lies to the Supreme Court under Section 15Z.[11]

SEBI does not operate in isolation. The Securities Contracts (Regulation) Act, 1956 governs recognition of stock exchanges and defines "securities," and SEBI now exercises most regulatory functions originally vested in the central government under that Act.[12] The Depositories Act, 1996 brought dematerialised holding of securities within SEBI's ambit, reducing the physical share fraud that once plagued investors.[13] The Companies Act, 2013 supplies the underlying corporate law

[6]Securities and Exchange Board of India Act, 1992, No. 15, Acts of Parliament, 1992, §§ 11, 11B, 11C (India).
[7]Id. pmbl.
[8]Securities Laws (Amendment) Act, 1995, No. 9, Acts of Parliament, 1995 (India); Securities Laws (Amendment) Act, 2014, No. 27, Acts of Parliament, 2014 (India).
[9]SEBI Act, 1992, Section 11(1); Sahara India Real Estate Corp. Ltd. v. SEBI, (2012) 10 SCC 603, ¶ 40 (India).
[10]SEBI Act, 1992, Sections 11B, 15-I; SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (India).
[11]SEBI Act, 1992, Sections 15T, 15Z.
[12]Securities Contracts (Regulation) Act, 1956, Section 2(h) (defining “securities”); id. Section 4 (recognition of stock exchanges).
[13]The Depositories Act, 1996, No. 22, Acts of Parliament, 1996 (India).

framework, its provisions on independent directors and related party transactions working alongside SEBI's disclosure regulations rather than in place of them.[14]

Beneath the statutes sits a dense layer of regulations. The Listing Obligations and Disclosure Requirements Regulations, 2015 (LODR) consolidate continuous disclosure obligations.[15] The Prohibition of Insider Trading Regulations, 2015 (PIT) prohibit trading on unpublished price-sensitive information.[16] The Issue of Capital and Disclosure Requirements Regulations, 2018 (ICDR) govern public and rights issues, while the Substantial Acquisition of Shares and Takeovers Regulations, 2011 regulate open offers triggered by change of control.[17] The Prohibition of Fraudulent and Unfair Trade Practices Regulations, 2003 (PFUTP) is the residual anti-fraud provision, catching manipulative conduct that escapes the more specific regulations.[18] This framework rests on a disclosure-based philosophy: SEBI requires that material facts be disclosed accurately and promptly, leaving investors to decide.

4. SEBI's Role in Protecting Investors

Investor protection at SEBI operates on three fronts: education, market regulation, and fraud prevention, reinforced by an enforcement apparatus that gives the first two some practical bite.

SEBI administers the Investor Protection and Education Fund under Section 11 of the Act, financed partly through unclaimed dividends transferred from listed companies and used to fund awareness programmes through the National Institute of Securities Markets.[19] The SEBI Complaints Redress System (SCORES) gives retail investors a direct online channel for filing and tracking grievances against listed companies and intermediaries.[20]

On market regulation, SEBI registers and supervises the chain of intermediaries standing between an investor and the market exchanges, brokers, merchant bankers, mutual funds, credit rating agencies, portfolio managers, and investment advisers, each governed by its own regulations on

[14]Companies Act, 2013, No. 18, Acts of Parliament, 2013, Sections 149, 188, 245 (India).
[15]SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Gazette of India, pt. III, Section 4 (Sept. 2, 2015) (India) [hereinafter LODR Regulations].
[16]SEBI (Prohibition of Insider Trading) Regulations, 2015, Gazette of India, pt. III, Section 4 (Jan. 15, 2015) (India).
[17]SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (India); SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (India).
[18]SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (India) [hereinafter PFUTP Regulations].
[19]SEBI Act, 1992, Section 11; SEBI (Investor Protection and Education Fund) Regulations, 2009 (India).
[20]SEBI, SEBI Complaints Redress System (SCORES), https://scores.gov.in (last visited Aug. 2, 2026).

eligibility, capital adequacy, and conduct.[21] This matters because most retail investors never interact with SEBI directly; a failure at the intermediary level is functionally a failure of investor protection.

Fraud prevention is where SEBI's enforcement machinery is most visible. Insider trading, prohibited under the PIT Regulations, punishes trading by persons with access to unpublished price-sensitive information; front-running has increasingly been treated as an unfair trade practice even where the person front-running is not a formal intermediary.[22] Price manipulation through circular or synchronised trading, and "pump-and-dump" schemes coordinated through social media, are pursued under the PFUTP Regulations.[23] SEBI's investigative powers under Section 11C allow it to call for records, examine persons on oath, and conduct search and seizure with judicial authorisation, while adjudicating officers may impose substantial penalties under Sections 15A to 15HB.[24] Where a full inquiry would take too long, SEBI increasingly relies on the settlement mechanism under Section 15JB, allowing a noticee to settle without admission or denial of guilt praised for speed but criticised for under-deterring serious misconduct.[25] Debarment orders restraining persons from accessing the securities market remain among SEBI's most potent tools, striking at a violator's ability to participate in the market at all.

5. SEBI's Role in Corporate Governance

Corporate governance concerns the systems by which companies are directed and controlled, and in particular the mechanisms holding management and controlling shareholders accountable to minority shareholders.[26] SEBI's contribution has been made almost entirely through the LODR Regulations, which supply the operative detail that the Companies Act leaves to the regulator.

The LODR Regulations mandate a minimum proportion of independent directors and, for certain listed companies, require the chairperson and managing director roles to be held by different individuals, responding to concerns that concentrated authority in a single promoter-executive

[21]See, e.g., SEBI (Stock Brokers) Regulations, 1992 (India); SEBI (Merchant Bankers) Regulations, 1992 (India); SEBI (Mutual Funds) Regulations, 1996 (India); SEBI (Credit Rating Agencies) Regulations, 1999 (India); SEBI (Portfolio Managers) Regulations, 2020 (India); SEBI (Investment Advisers) Regulations, 2013 (India).
[22]SEBI (Prohibition of Insider Trading) Regulations, 2015, reg. 4 (India); SEBI v. Kanaiyalal Baldevbhai Patel, (2017) 15 SCC 1 (India).
[23]PFUTP Regulations, supra note 18, reg. 4.
[24]SEBI Act, 1992, Section 11C, 15A–15HB.
[25]SEBI Act, 1992, Section 15JB; SEBI (Settlement Proceedings) Regulations, 2018 (India).
[26]See Adrian Cadbury, Corporate Governance and Chairmanship: A Personal View 1 (2002).

weakens internal checks.[27] Board committees required under the regulations the audit committee, nomination and remuneration committee, and, for large entities, a risk management committee move specific categories of decision-making toward committees with a majority of independent members, reducing the scope for promoter capture of decisions such as auditor appointment or executive pay.[28]

Disclosure obligations extend to related party transactions, historically used by controlling shareholders to extract value from listed subsidiaries at minority shareholders' expense.[29] The regulations require prior audit committee approval of material related party transactions and, above specified thresholds, shareholder approval in which related parties cannot vote. SEBI has also extended its governance mandate into non-financial reporting through the Business Responsibility and Sustainability Reporting (BRSR) framework, requiring large listed companies to disclose ESG performance in a standardised format.[30] These measures narrow the space within which promoters can operate without scrutiny.

6. Important Judicial Decisions

Judicial review of SEBI's orders has done as much to define the regulator's powers as the statute itself. In *Sahara India Real Estate Corp. Ltd. v. SEBI*, the Supreme Court held that optionally fully convertible debentures issued by two Sahara group companies to more than twenty million investors, structured as a private placement to avoid SEBI's jurisdiction, were in substance a public issue falling within SEBI's purview, and directed the companies to refund the amounts collected with interest.[31] The judgment matters less for its facts than for its jurisdictional holding: SEBI's authority attaches to the character of the fundraising, not the label the issuer gives it.

In *N. Narayanan v. Adjudicating Officer, SEBI*, the Court upheld penalties and a market-access restraint imposed on a director for inflated financial disclosures that misled investors, holding that liability cannot be escaped by pointing to a narrow functional role when the fraud went to the accuracy of information released to the market as a whole.[32] *SEBI v. Kanaiyalal Baldevbhai Patel*

[27]LODR Regulations, supra note 15, reg. 17.
[28]Id. regs. 18–21.
[29]Id. reg. 23.
[30]SEBI, Circular No. SEBI/HO/CFD/CMD-2/P/CIR/2021/562, Business Responsibility and Sustainability Reporting by Listed Entities (May 10, 2021) (India).
[31]Sahara India Real Estate Corp. Ltd. v. SEBI, (2012) 10 SCC 603 (India).
[32]N. Narayanan v. Adjudicating Officer, SEBI, (2013) 12 SCC 152 (India).

concerned front-running by a trader who was not himself an intermediary but traded ahead of a portfolio manager's orders using tipped information; the Court held that the PFUTP Regulations extend to any person connected with the securities market whose conduct undermines fair dealing, and that unfair trade practice requires only a preponderance of probabilities, not criminal-standard intent.[33] *SEBI v. Rakhi Trading (P) Ltd.* addressed reversal trades in derivatives, holding that manipulation requires a deliberate attempt to interfere with fair market operation, assessed from the totality of circumstances rather than any single transaction in isolation.[34] Together, these decisions give SEBI a workable, victim-centred standard of proof while still requiring some deliberateness in conduct.

On the governance side, *Clariant International Ltd. v. SEBI* arose from a takeover dispute over interest payable to shareholders who had tendered shares in a delayed open offer, with the Court laying down principles on calculating such interest that continue to guide takeover practice.[35] The case is a reminder that SEBI's governance and investor-protection functions frequently intersect in takeover situations, where minority shareholders are simultaneously exposed to control transactions and dependent on SEBI's regulations for exit price protection.

7. Recent Developments

SEBI's regulatory attention has shifted toward digital and technology-driven risks in recent years. Algorithmic and high-frequency trading, which account for a substantial share of exchange volumes, have prompted SEBI to require exchange-level risk controls and empanelment of registered algo providers, shifting some supervisory responsibility onto market infrastructure institutions themselves.[36]

The regulation of unregistered "finfluencers" reflects a newer concern created by social media. Following amendments to its Intermediaries Regulations effective August 2024, SEBI barred registered entities brokers, mutual funds, investment advisers, exchanges, and their agents from any association with persons providing unregistered investment advice.[37] A circular of January

[33]SEBI v. Kanaiyalal Baldevbhai Patel, (2017) 15 SCC 1 (India).
[34]SEBI v. Rakhi Trading (P) Ltd., (2018) 13 SCC 753 (India).
[35]Clariant International Ltd. v. SEBI, (2004) 8 SCC 524 (India).
[36]See SEBI, Circular on Framework for Algorithmic Trading (2021–22) (India); Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018, reg. 41A (India).
[37]SEBI (Intermediaries) (Amendment) Regulations, 2024 (India) (effective Aug. 29, 2024).

2025 clarified that genuine investor education may continue, but only where the educator avoids return claims and restricts any reference to stock prices to data at least three months old, preventing real-time tips disguised as education.[38] The rules illustrate SEBI's difficulty in drawing a workable line between education, which it wishes to encourage, and advice, which triggers registration.

On market infrastructure, SEBI moved the equity cash market to a T+1 settlement cycle, completed across all listed scrips by early 2023, reducing the window during which investor funds and securities are exposed to counterparty risk.[39] SEBI has also tightened cybersecurity and business continuity requirements for market infrastructure institutions, reflecting a recognition that operational resilience is now inseparable from investor protection.[40]

8. Challenges Faced by SEBI

Despite this expanding rulebook, SEBI's practical effectiveness is constrained in several respects. Enforcement proceedings involving detailed forensic investigation routinely take years to conclude, and appeals to the Tribunal and thereafter the Supreme Court add further delay; by the time a debarment order becomes final, its deterrent value has often been lost. Cross-border fraud presents a related difficulty: schemes routed through offshore entities require mutual legal assistance and cooperation with foreign regulators, a slower process than domestic investigation.

The regulatory status of cryptocurrency and similar digital assets remains unsettled, with SEBI, the Reserve Bank of India, and the central government having expressed differing views on how such instruments should be regulated, leaving investors without a clear regulatory home. Overlapping jurisdiction between SEBI, the Ministry of Corporate Affairs, and the Reserve Bank of India over listed company conduct occasionally produces uncertainty about which regulator's view should prevail.

Resource constraints are a persistent, if less visible, difficulty. SEBI's investigative staff and technological infrastructure have grown, but not always in proportion to trading volumes and the complexity of instruments now traded. Investor awareness, despite SEBI's education initiatives, remains uneven outside urban centres, leaving retail investors more vulnerable to mis-selling

[38]SEBI, Circular on Association of SEBI Registered Intermediaries/Regulated Entities with Unregistered Finfluencers (Jan. 29, 2025) (India).
[39]SEBI, Circular on Introduction of T+1 Rolling Settlement Cycle on an Optional Basis (Sept. 7, 2021) (India); see also Press Trust of India, All Stocks Move to T+1 Settlement Cycle, Bus. Standard (Jan. 27, 2023).
[40]See SEBI, Cyber Security and Cyber Resilience Framework for Market Infrastructure Institutions (India).

precisely where outreach is weakest. Finally, SEBI must continually balance encouraging market development against the tightening of rules that development sometimes calls for, a tension inherent in any regulator asked simultaneously to promote and to police the same market.

9. Suggestions and Reforms

Several measures could strengthen SEBI's mandate without a wholesale redesign of the existing framework. Faster adjudication is the most obvious priority: clearer timelines for completing investigations, coupled with additional adjudicating officers and greater use of technology in evidence review, would reduce the gap between detection and final orders, though any timeline must allow for the genuine complexity of financial forensics rather than sacrificing accuracy for speed.

Investment in AI-based surveillance should continue, but with clear evidentiary protocols governing how automated alerts translate into formal proceedings, so that detection capacity does not outpace due process. Investor education needs to move beyond generic campaigns toward targeted intervention in regional languages and semi-urban areas, where financial literacy gaps are most pronounced.

Stronger whistleblower protection, building on SEBI's existing informant mechanism under the PIT Regulations, could improve detection of insider trading and governance failures otherwise difficult to uncover, provided confidentiality and protection from retaliation are genuinely assured. Greater international cooperation, through information-sharing with foreign regulators, would assist in tracing cross-border fraud and offshore holding structures. Finally, better coordination between SEBI, the Ministry of Corporate Affairs, and the Reserve Bank of India on overlapping jurisdiction would reduce regulatory arbitrage. None of these suggestions is a complete solution alone; together they would narrow the gap between SEBI's statutory ambition and its practical reach.

10. Conclusion

SEBI's history since 1992 is a history of a regulator built in response to crisis and then repeatedly expanded, through amendment and judicial interpretation, to keep pace with a market that has grown far beyond what its founders anticipated. Its disclosure-based approach to both investor protection and corporate governance, requiring information rather than dictating outcomes, has generally proved suited to a market economy, and its enforcement record, tested before the Tribunal and the Supreme Court, has produced a reasonably coherent body of principle on questions ranging from jurisdiction over hybrid securities to the standard of proof in market manipulation cases. At the same time, enforcement delay, the unresolved status of newer asset classes, and the scale of a market SEBI must supervise with finite resources mean its effectiveness should not be overstated. Investor confidence, on which the depth and liquidity of Indian capital markets ultimately depend, is not created by rules alone but by the visible, timely, and even-handed application of those rules. SEBI's continuing task is less to write new regulations, of which there is now no shortage, than to enforce those already in place with a speed and consistency matching the pace of the market they govern.