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GUARDING THE GATE: THE ROLE OF SEBI IN PROTECTING INVESTORS IN THE INDIAN STOCK MARKET

~ Swastika Pradhan

ABSTRACT

Investor confidence is the foundation on which every securities market rests. In India, the Securities and Exchange Board of India (SEBI) is the institution charged with sustaining it. This article examines how SEBI protects investors in the Indian stock market through three lenses: its statutory mandate under the SEBI Act, 1992; the preventive, enforcement and remedial tools it deploys; and the judicial and political checks that discipline its power. Drawing on leading Supreme Court decisions and recent regulatory episodes, including the 2024 reforms on retail derivatives trading and the 2025 action against Jane Street Group, the article argues that SEBI has evolved from a reactive watchdog into a rule-maker, investigator and adjudicator of considerable reach. It contends, however, that the concentration of functions, slow adjudication and the persistent vulnerability of retail investors call for continued reform, and it assesses the Securities Markets Code, 2025 against that need.

Keywords: SEBI; investor protection; securities regulation; insider trading; Securities Appellate Tribunal; Securities Markets Code, 2025

INTRODUCTION

A stock market runs on a promise. The investor who buys shares in a company she has never visited, through a broker she has never met, on an exchange she will never enter, trusts that the price she pays reflects honest information, that the trade will be settled, and that if wrongdoing occurs, someone will be made to answer for it. When that promise fails, the damage extends well beyond the individual loss. Capital becomes costlier, participation shrinks, and the market ceases to perform its basic function of channelling savings into productive enterprise. Securities regulation exists, above all, to keep the promise credible.

In India, that responsibility rests with the Securities and Exchange Board of India (SEBI), and the stakes have risen sharply. Over the past decade, household savings have moved toward equities and mutual funds on a scale not seen before. Demat accounts now number well over fifteen crore, and a generation of first-time investors, many of them young and trading on a smartphone, has entered a market whose products, particularly in derivatives, are complex and unforgiving.[1] These investors have little capacity to verify a prospectus, bargain with an intermediary or sue a listed company. They depend on the regulator to do those things on their behalf.

The Securities and Exchange Board of India Act, 1992 (SEBI Act) states the Board's core duty plainly: to protect the interests of investors in securities and to promote the development of, and to regulate, the securities market.[2] Investor protection is therefore not an incidental by-product of SEBI's work but the first item in its statutory mandate. This article asks how SEBI discharges that mandate and how well it does so.

Part II traces the institution's evolution from an advisory body to a statutory regulator. Part III sets out its legal architecture. Parts IV to VI analyse SEBI's protective role in three stages: prevention through disclosure and gatekeeping, enforcement against wrongdoers, and remedies for those who have been harmed. Part VII examines the judicial checks on SEBI's powers. Part VIII identifies contemporary challenges, Part IX considers the Securities Markets Code, 2025, and Part X offers recommendations before the article concludes.

FROM SCANDAL TO STATUTE: THE EVOLUTION OF SEBI

Organised share trading in India dates to 1875, when the Native Share and Stock Brokers' Association, the forerunner of the Bombay Stock Exchange, was formed.[3] For most of the following century, the market was governed by broker self-regulation supplemented by state control. The Capital Issues (Control) Act, 1947 required companies to obtain government consent before raising capital and to accept the price the Controller of Capital Issues approved, and the Securities Contracts (Regulation) Act, 1956 (SCRA) regulated stock exchanges and the contracts traded on them.[4] Investor protection under this regime was largely incidental. The

[1] National Securities Depository Ltd and Central Depository Services (India) Ltd, monthly statistics on demat accounts.
[2] Securities and Exchange Board of India Act 1992, s 11(1).
[3] Bombay Stock Exchange, history of the Exchange (founded 1875 as the Native Share and Stock Brokers' Association).
[4] Capital Issues (Control) Act 1947 (repealed 1992); Securities Contracts (Regulation) Act 1956.

state was concerned with the allocation of scarce capital, not with the fairness of the bargain struck by a retail shareholder.

SEBI was constituted in 1988 by an executive resolution as a non-statutory body. Without enforceable powers, it could advise and monitor but not compel.[5] The securities scam of 1992 exposed the weakness of that arrangement. Brokers diverted funds from the banking system into the stock market through irregular inter-bank transactions, prices rose to unsustainable levels, and the collapse left investors with losses that no authority had the power to prevent or redress. The Joint Parliamentary Committee that inquired into the irregularities recommended a stronger regulator with statutory authority.[6] Parliament responded with the SEBI Act, which gave the Board statutory status in 1992, and the Capital Issues (Control) Act was repealed in the same period, replacing government pricing of issues with disclosure-based regulation.

Later crises shaped the Board's powers in a recurring pattern. The price rigging of 2000 to 2001 and the distress of the Unit Trust of India's US-64 scheme led to the Securities Laws (Amendment) Act, 2002, which inserted the penalty and adjudication provisions now found in Chapter VIA of the SEBI Act and enlarged the Board's investigative reach. The Securities Appellate Tribunal (SAT), set up in 1995, became the principal forum for appeals against SEBI's orders.[7] The proliferation of unregulated collective investment and deposit schemes that drew millions of small savers produced the next major reform, the Securities Laws (Amendment) Act, 2014, which gave SEBI express authority over collective investment schemes, powers to attach bank accounts and property, and a more robust search and seizure regime.[8]

The pattern is instructive. Each major extension of SEBI's powers followed a crisis in which investors suffered losses that the existing law could neither prevent nor remedy. The institution has grown by reaction, a point to which this article returns when assessing its present challenges.

[5] Resolution of the Government of India constituting the Securities and Exchange Board of India (12 April 1988).

[6] Report of the Joint Parliamentary Committee on Irregularities in Securities and Banking Transactions (Lok Sabha Secretariat, 1993).

[7] SEBI Act 1992, s 15K; Securities Laws (Amendment) Act 1995.

[8] Securities Laws (Amendment) Act 2002; Securities Laws (Amendment) Act 2014; SEBI Act 1992, ss 11AA, 11C and 28A.

THE LEGAL ARCHITECTURE OF INVESTOR PROTECTION

A. Mandate and Composition

Section 11(2) of the SEBI Act lists the measures through which the Board may pursue its mandate. They include regulating the business of stock exchanges and other securities markets; registering and regulating intermediaries such as stock brokers, merchant bankers, investment advisers and mutual funds; prohibiting fraudulent and unfair trade practices and insider trading; regulating substantial acquisitions of shares and takeovers; calling for information from, inspecting and auditing market participants; and promoting investor education and the training of intermediaries.[9] The Board consists of a Chairman, two members from the Union Finance Ministry, one member nominated by the Reserve Bank of India and five other members, of whom at least three are whole-time members.

B. A Concentration of Functions

SEBI combines three kinds of power that classical separation-of-powers theory would keep apart. It makes law, through regulations framed under section 30 and laid before Parliament under section 31, supplemented by circulars that fill in operational detail.[10] It acts as an executive agency, registering intermediaries, inspecting books, investigating suspected violations under section 11C and issuing interim and final directions under sections 11(4) and 11B. It adjudicates, either through adjudicating officers appointed under section 15-I or through orders passed by whole-time members after a hearing.[11]

The justification for this concentration is speed and expertise. Markets move in milliseconds, and a regulator that must run to a court for every freezing order would arrive after the money has gone. The cost is the risk that the same institution acts as rule-maker, prosecutor and judge in its own cause. Much of SEBI's legal history, and much of the debate around the Securities Markets Code, 2025, is an attempt to preserve the benefit while containing the risk.

C. The Remedial Toolkit

The Act arms SEBI with a graded set of consequences. At the lower end are warnings, directions to rectify and monetary penalties under sections 15A to 15HB, assessed after considering factors such as the disproportionate gain made, the loss caused to investors and the

[9] SEBI Act 1992, ss 4 and 11(2).
[10] SEBI Act 1992, ss 30–31.
[11] SEBI Act 1992, ss 11(4), 11B, 11C and 15-I.

repetitive nature of the default.[12] Section 15HA, which deals with fraudulent and unfair trade practices, prescribes a penalty of not less than five lakh rupees, which may extend to twenty-five crore rupees or three times the profit made, whichever is higher. Beyond penalties, the Board may suspend or cancel registrations, bar persons from the market, order disgorgement of unlawful gains and attach assets. At the top end, section 24 provides for criminal prosecution, with imprisonment of up to ten years, a fine of up to twenty-five crore rupees, or both.[13] The breadth of this toolkit allows enforcement to be proportionate, but it also places a heavy burden on the quality of SEBI's own decision-making.

PREVENTIVE PROTECTION: DISCLOSURE, GATEKEEPING AND MARKET DESIGN

The best investor protection is the loss that never occurs. SEBI's preventive strategy rests on four foundations: disclosure, fair rules for control transactions, regulation of intermediaries and a well-engineered market infrastructure.

A. Disclosure at Entry and Throughout Listing

Information asymmetry is the root problem of securities markets. Promoters know their business and investors do not. The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 respond by requiring issuers to file draft offer documents with SEBI, which examines them and issues observations before an issue may open. The regulations prescribe the content of the offer document, including risk factors, the objects of the issue, related-party dealings and litigation history, and impose safeguards such as minimum promoter contribution and lock-in periods that bind promoters to the fortunes of the company they are selling.[14] The shift to application supported by blocked amount (ASBA) and, later, UPI-based bidding and a shortened listing timeline has also reduced the time during which an applicant's money is locked up and the burden of refunds to unsuccessful applicants.[15]

Disclosure does not end at listing. The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 impose a continuing duty to disclose material events, to publish periodic financial results, to subject related-party transactions to scrutiny by

[12] SEBI Act 1992, s 15J.

[13] SEBI Act 1992, ss 15A–15HB and 24.

[14] Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018.

[15] SEBI circulars on application supported by blocked amount and UPI-based bidding in public issues; ICDR Regulations 2018 (as amended).

independent directors and shareholders, and to maintain board composition and committees designed to supervise management.[16] These requirements turn corporate governance from a matter of good practice into an enforceable standard, and a breach gives SEBI a statutory basis to act on behalf of shareholders who could not realistically do so themselves.

B. Fairness in Control Transactions

Minority shareholders are most exposed when control of a company changes hands. The SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 address this by requiring an acquirer who crosses a defined threshold, currently twenty-five per cent of voting rights, to make an open offer to the remaining shareholders. The rule gives minority investors an exit on terms comparable to those enjoyed by the selling promoter, preventing control premiums from being captured entirely by insiders.[17]

C. Insider Trading and Market Abuse

Two instruments define SEBI's approach to market abuse. The SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 prohibit manipulation, misleading statements and any scheme that operates as a fraud on investors. The SEBI (Prohibition of Insider Trading) Regulations, 2015 prohibit trading while in possession of unpublished price sensitive information, impose codes of conduct and trading-window closures within listed companies, and require structured digital databases of those who have access to sensitive information.[18] The insider trading framework also includes a reward scheme for informants, reflecting the recognition that those inside an organisation are often the only people who can see the wrongdoing.[19]

D. Gatekeepers and Intermediaries

Investors rarely deal with the market directly. They deal with brokers, depositories, mutual funds, advisers and rating agencies, and SEBI's registration regimes make these gatekeepers subject to net-worth, fit-and-proper and conduct requirements. The Investment Advisers Regulations, 2013 and the Research Analysts Regulations, 2014 respond to a specific harm:

[16] Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015.

[17] Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations 2011, reg 3(1).

[18] Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations 2003; Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 2015.

[19] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 2015, ch IIIA (informant mechanism, inserted 2019).

advice given by those with a hidden interest in the product. They require registration, disclosure of conflicts and, in the case of advisers, a separation between advisory and distribution activity.[20]

Crises in the intermediary layer have repeatedly driven reform. In 2019, SEBI found that Karvy Stock Broking had pledged client securities without authorisation to raise funds for its own group, leaving thousands of investors without their holdings. The Board barred the firm from taking on new clients, and the episode drove a tightening of the regime for pledging clients' securities, under which the pledge is now created through the depository directly in favour of the lender rather than by transferring the securities to the broker's own account.[21] The 2020 collapse of several debt schemes run by Franklin Templeton Mutual Fund similarly exposed the liquidity risk in open-ended debt funds and led SEBI to strengthen the liquidity risk-management norms for mutual funds.[22]

Mutual funds, through which most first-time investors reach the market, receive particular attention under the SEBI (Mutual Funds) Regulations, 1996. SEBI sets conduct and independence standards for asset management companies and trustees, limits the expenses that may be charged to schemes, requires direct plans that omit distributor commissions, and has prescribed scheme categorisation so that investors can compare like with like. The Risko meter, which displays a scheme's level of risk on a graded scale, translates a complex disclosure into a form that an unsophisticated investor can read at a glance.[23]

E. Market Design and Risk Management

A regulator can also protect investors by building safety into the plumbing of the market. SEBI oversees margin requirements, circuit breakers, settlement guarantee funds at clearing corporations and the move to a shorter settlement cycle, which has reduced the time over which counterparty risk accumulates. These measures are invisible to the ordinary investor but are

[20] Securities and Exchange Board of India (Investment Advisers) Regulations 2013; Securities and Exchange Board of India (Research Analysts) Regulations 2014.

[21] SEBI, Order in the matter of Karvy Stock Broking Limited (November 2019); SEBI circulars on pledge and re-pledge of clients' securities (2020).

[22] SEBI circulars on the liquidity risk management framework for open-ended debt schemes (2020–2021), issued after Franklin Templeton Mutual Fund wound up six debt schemes in April 2020.

[23] Securities and Exchange Board of India (Mutual Funds) Regulations 1996; SEBI, circular on categorisation and rationalisation of mutual fund schemes (6 October 2017); SEBI circulars on product labelling and the Risko meter.

what ensure that a defaulting member does not take the market's honest participants down with it.[24]

ENFORCEMENT: SURVEILLANCE, INVESTIGATION AND ADJUDICATION

A. Detecting and Investigating Wrongdoing

Preventive rules are only as good as the credibility of enforcement. SEBI relies on market surveillance systems that scan trading patterns for abnormal price and volume movements, on complaints and references from exchanges and other agencies, and on information from informants. Where it suspects a violation, section 11C empowers it to order an investigation, summon and examine persons, and require the production of records. Following the 2014 amendments, the Board may also seek authorisation from a judicial magistrate for search and seizure, an important safeguard that ties intrusive power to judicial oversight.[25]

B. Interim Orders and Impounding

Where delay would allow wrongdoers to dissipate gains or continue to harm investors, SEBI can act before it has reached a final finding. Sections 11(4) and 11B allow the Board to restrain persons from accessing the market, to freeze or impound assets and to suspend trading, often on an ex parte basis with a hearing to follow. The July 2025 interim order against Jane Street Group illustrates both the power and the controversy surrounding it. SEBI alleged that the group had manipulated index levels, particularly on expiry days, in a way that profited its large positions in index options at the expense of other participants, and it barred the group's entities from the market and ordered the impounding of more than four thousand eight hundred crore rupees alleged to be unlawful gains.[26] The group denied the allegations, deposited the amount in an escrow account and was permitted to resume trading while proceedings continued. The merits remain contested, and this article takes no position on them. What the episode shows is that SEBI will use its interim powers against even sophisticated global trading firms, and that those powers are subject to prompt review by SAT.

[24] SEBI circular on the T+1 settlement cycle (2021), implemented in phases from 2022 and for all scrips from January 2023.

[25] SEBI Act 1992, s 11C (as amended in 2014).

[26] SEBI, Interim Order in the matter of Jane Street Group (3 July 2025).

C. Adjudication, Penalties and Prosecution

After investigation, SEBI may proceed by way of adjudication, by quasi-judicial orders of whole-time members, or by criminal complaint. Most cases end in civil consequences such as penalties, bans and disgorgement, and the standard of proof matters greatly. In *SEBI v. Shriram Mutual Fund*, the Supreme Court held that a civil penalty under the SEBI Act follows as soon as the statutory contravention is established, and that the intention of the contravener is immaterial.[27] The principle has particular value in a field where proving a state of mind is difficult, and it signals that compliance is an obligation of result rather than of good intent.

In *SEBI v. Kishore R. Ajmera*, the Court went further in respect of proof of fraud. It held that SEBI's findings in proceedings of this kind are to be tested on the standard of preponderance of probabilities, and that circumstantial evidence, such as the pattern, timing and counterparties of trades, may establish manipulation even where direct evidence of agreement is absent.[28] The decision restored SEBI's order against circular and synchronised trading that the SAT had set aside, and it remains the leading authority for the proposition that regulators need not prove market abuse to the criminal standard to protect investors from it.

D. The Sahara Litigation

No enforcement episode has tested SEBI's role as protector of small investors more than the Sahara litigation. Two Sahara group companies raised enormous sums from millions of small investors through optionally fully convertible debentures (OFCDs) issued without complying with the securities laws governing public issues. In its decision of 31 August 2012, the Supreme Court upheld SEBI's jurisdiction, held that the instruments were securities offered to the public, and directed the companies to refund investors with interest at fifteen per cent per annum.[29] The litigation continued for years and included contempt proceedings against the group's promoter, in the course of which the Court monitored deposits and the refund process.[30] Sahara is significant for two reasons. It confirmed that SEBI's jurisdiction extends to large unlisted entities that raise money from the public, and it demonstrated how difficult it is, even after a complete legal victory, to return money to dispersed investors.

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[27] *Chairman, SEBI v Shriram Mutual Fund* (2006) 5 SCC 361.
[28] *SEBI v Kishore R Ajmera* (2016) 6 SCC 368.
[29] *SEBI v Sahara India Real Estate Corporation Ltd* (2013) 1 SCC 1.
[30] *Subrata Roy Sahara v Union of India* (2014) 8 SCC 470.

E. Settlement

Not every case must run its full course. Section 15JB and the SEBI (Settlement Proceedings) Regulations, 2018 allow a person under investigation to settle the matter, without admitting or denying the findings, by paying a settlement amount and complying with agreed terms.[31] Settlement saves enforcement resources and delivers outcomes sooner, but it carries a legitimate criticism: it may allow well-resourced violators to buy certainty, and it reduces the deterrent and educative value of reasoned public orders. The design of settlement policy must therefore be watched with care.

REMEDIAL PROTECTION: REDRESS, COMPENSATION AND EDUCATION

Investor protection does not end when harm occurs. An investor who has lost money through a broker's default, an advisory mis-sale or a missed corporate action needs a route to redress that is cheap, fast and realistic for a person without lawyers. SEBI's response has been to build a layered system of grievance mechanisms.

The first layer is SCORES, the web-based complaint redress platform through which investors lodge grievances against listed companies and registered intermediaries, which the regulator relaunched in an upgraded form in 2024 with automatic routing, defined timelines and escalation. The second is the online dispute resolution (ODR) framework introduced in 2023, which provides conciliation and, if needed, arbitration through institutions approved for the purpose, outside the formal court system.[32] Exchanges also maintain arbitration mechanisms for disputes with members, and investor protection funds maintained by the exchanges provide limited compensation where a member defaults. SEBI's Investor Charter, introduced for each category of market participant, states in plain language what investors are entitled to expect and how to complain when it is not delivered.[33]

Alongside these mechanisms, SEBI maintains an Investor Protection and Education Fund, financed from penalties and unclaimed amounts, which supports investor awareness programmes and, in appropriate cases, restitution.[34] Investor education, which section 11(2)(f) expressly makes part of the Board's mandate, has an obvious logic: an investor who understands

[31] SEBI Act 1992, s 15JB; Securities and Exchange Board of India (Settlement Proceedings) Regulations 2018.

[32] SEBI, circulars on the establishment of an Online Dispute Resolution Mechanism in the Indian Securities Market (2023) and on SCORES 2.0 (2024).

[33] SEBI, Investor Charter circulars for market intermediaries and infrastructure institutions (from 2021).

[34] Securities and Exchange Board of India (Investor Protection and Education Fund) Regulations 2009.

that guaranteed returns are a red flag, that a tip on social media is not research, and that a derivative can lose more than the premium paid is the cheapest protection a regulator can create. Tools such as the Saathi mobile application and regular investor awareness campaigns serve this aim, although the evidence discussed below suggests that awareness alone has not been enough.

JUDICIAL OVERSIGHT AND THE ACCOUNTABILITY OF SEBI

A regulator with legislative, investigative and adjudicative powers must itself be accountable. The principal check is appellate. Under section 15T, any person aggrieved by a SEBI order may appeal to the Securities Appellate Tribunal, and under section 15Z a further appeal lies to the Supreme Court on any question of law.[35] SAT's decisions have repeatedly reshaped SEBI's practice, particularly on procedural fairness. It has insisted that interim ex parte orders be reserved for cases of real urgency, that findings be supported by evidence and not suspicion, and that penalties be proportionate to the contravention.

The Supreme Court has also supplied the doctrinal underpinnings of the regime. *Shriram* and *Ajmera* defined the standards of liability and proof, and *Sahara* confirmed the breadth of SEBI's jurisdiction. In each, the Court sought to balance the regulator's need for effective tools against the rights of the persons it regulates. The result is a body of case law that tells SEBI it will be supported when it acts on evidence and within jurisdiction, and corrected when it does not.

Accountability extends to those who run the regulator. In August 2024 a US-based short seller alleged that the then Chairperson of SEBI and her husband held investments in offshore funds linked to entities whose affairs the Board was examining. She denied the allegation.[36] Whatever its merits, the episode drew public attention to a question that applies to every regulator: how should the people who enforce conflict-of-interest rules against the market be held to the same standard themselves? Disclosure of regulators' own interests and recusal protocols are as essential to investor confidence as the rules SEBI enforces on others.

[35] SEBI Act 1992, ss 15T and 15Z.

[36] Hindenburg Research, allegations of 10 August 2024; the Chairperson's public denial of the same period.

CONTEMPORARY CHALLENGES

A. Retail Participation in Derivatives

The most serious contemporary test of SEBI's protective role is retail trading in equity derivatives. In September 2024, a SEBI study of individual traders in the equity futures and options segment found that a very large majority, roughly nine in ten, had incurred losses over a three-year period, with aggregate losses running into lakhs of crores of rupees.[37] The regulator responded in October 2024 with a package intended to curb speculative excess: a reduction in the number of weekly index expiries, an increase in contract sizes, upfront collection of option premiums and stricter intraday monitoring of position limits.[38] The intervention was paternalistic by design, and it has been criticised by some market participants as reducing liquidity. It is nonetheless a recognition that disclosure alone does not protect investors who knowingly or unknowingly take risks that exceed their means, and that structural limits on product design may be required where the information problem cannot be solved by information.

B. Unregistered Advice and Social Media

A second challenge is the shift of investor attention from regulated intermediaries to online influencers. Unregistered "finfluencers" and tip providers reach audiences that no registered adviser could match, frequently with promises of assured returns and without disclosing paid promotions or positions held. SEBI has responded with enforcement orders and with restrictions on regulated entities associating with unregistered influencers, but the scale and anonymity of messaging platforms make detection difficult.[39] The regulation of pump-and-dump schemes using social media, particularly around smaller issuers, will remain a priority for some time.

C. Technology, Speed and Systemic Risk

Algorithmic and high-frequency trading, retail access to algorithms through broker platforms, and growing dependence on a small number of technology providers raise new questions of fairness and resilience. The Jane Street case itself concerns the relationship between large,

[37] SEBI, Analysis of Profit and Loss of Individual Traders dealing in Equity Futures and Options (F&O) Segment (September 2024).

[38] SEBI, circular on measures to strengthen the equity index derivatives framework for increased investor protection and market stability (1 October 2024).

[39] SEBI, circular on the association of regulated entities with unregistered persons, including finfluencers (August 2024).

technologically sophisticated traders and retail participants. SEBI has begun to place retail algorithmic trading within a regulatory framework and has issued cyber-resilience requirements for market infrastructure institutions, but regulation of fast-moving technology will always lag the practices it is meant to govern.[40]

D. Institutional Capacity and Delay

Finally, the credibility of enforcement depends on timeliness. Investigation and adjudication in complex cases may take years, and the recovery of money from defaulters, as the Sahara experience shows, is slower still. Delay weakens deterrence, prolongs uncertainty for the accused and leaves victims without restitution. Backlogs at appellate level, including periods in which SAT lacked a full bench, compound the problem. A regulator that is expected to protect more than a hundred million investors must be resourced, staffed and organised to match that responsibility.

E. A Comparative Note

It is useful to measure these challenges against the experience of other jurisdictions. In the United States, the Securities and Exchange Commission can obtain disgorgement and civil penalties, and the Sarbanes-Oxley Act of 2002 allows penalties to be added to disgorged funds and distributed to harmed investors through what are known as Fair Funds.[41] Private securities class actions, brought under the anti-fraud provisions of the securities laws, supplement public enforcement by giving investors a direct route to compensation. Indian law, by contrast, relies overwhelmingly on public enforcement. The Companies Act, 2013 permits class actions in certain circumstances and SEBI can order refunds, but there is no developed system of securities class actions, and restitution depends largely on the regulator's own capacity.[42] The comparison is imperfect, since the American system has its own costs, including strike suits and heavy litigation expense, but it highlights the gap between penalising a wrongdoer and compensating the wronged. That gap lies at the heart of the recommendations that follow.

[40] SEBI, circular on safer participation of retail investors in algorithmic trading (February 2025); SEBI, Cybersecurity and Cyber Resilience Framework circulars for market infrastructure institutions and intermediaries.

[41] Sarbanes-Oxley Act of 2002, s 308(a), 15 USC § 7246.

[42] Companies Act 2013, s 245.

THE SECURITIES MARKETS CODE, 2025

The most significant legislative development is the Securities Markets Code, 2025, introduced in the Lok Sabha on 18 December 2025. The Code would consolidate and replace the SEBI Act, 1992, the Securities Contracts (Regulation) Act, 1956 and the Depositories Act, 1996 with a single statute built on principle-based drafting.[43] According to published summaries, it would enlarge and restructure the Board, introduce stricter conflict-of-interest safeguards for members, mandate an investor charter, establish a statutory grievance mechanism with an ombudsperson, and decriminalise certain minor violations in favour of civil penalties.

The Code was referred to the Parliamentary Standing Committee on Finance, which presented its report on 23 July 2026. As reported, the Committee broadly supported giving SEBI expanded powers but urged tighter checks, clearer language and objective standards to prevent their misuse.[44] At the time of writing, the Code has not, to the author's knowledge, been enacted, and its final form may differ from the Bill as introduced; readers should verify its current status.

The Code illustrates a theme that has run through this article. Investor protection and regulatory accountability are two sides of the same reform. Greater power for SEBI is defensible only if matched with greater transparency, objective standards for its use and effective review. Whether the Code finally strikes this balance will depend on provisions the Standing Committee has itself identified as needing more precise drafting.

RECOMMENDATIONS

Four reforms would strengthen SEBI's role in protecting investors.

First, SEBI should formalise the internal separation of its investigative, prosecutorial and adjudicatory functions. A firewall between the officers who investigate and the members who decide, together with a published record of how interim orders are authorised, would reduce the risk of bias and strengthen the legitimacy of its orders when they are challenged.

[43] Securities Markets Code Bill 2025 (introduced in the Lok Sabha, 18 December 2025); PRS Legislative Research, Bill Summary: The Securities Markets Code, 2025.

[44] Standing Committee on Finance, Report on the Securities Markets Code, 2025 (presented 23 July 2026); PRS Legislative Research, Standing Committee Report Summary.

Second, adjudication should be subject to statutory timelines, with reasons published for delay. Speed is itself a form of investor protection, and open-ended proceedings serve neither the accused nor the aggrieved.

Third, restitution should receive the same priority as penalty. A regulatory system in which the state collects fines while defrauded investors wait years for recovery has failed in its core purpose. SEBI should strengthen mechanisms for the distribution of disgorged sums to identifiable victims and publish data on the proportion actually returned. The law should also consider a structured collective redress mechanism for securities claims, so that investors with small individual losses are not left without a practical remedy.

Fourth, SEBI should continue to move from information-based protection toward design-based protection for products that retail investors consistently misuse. The 2024 derivatives measures show that structural limits can be justified where evidence shows persistent harm. They should be supported by data, subjected to impact review and adjusted when the evidence so demands.

CONCLUSION

SEBI's story is one of institutional growth driven by the failures of the market it regulates. From a non-statutory advisory body, it has become a regulator of wide statutory reach, armed with powers to make rules, to investigate, to impound, to penalise and to prosecute. Its protective work operates at every stage of an investor's relationship with the market: disclosure rules that reduce information asymmetry, takeover and insider trading regulation that protect minorities from insiders, registration and conduct regimes for intermediaries, enforcement that reaches from small-time operators to global trading firms, and grievance mechanisms that give the ordinary investor a place to complain.

Yet the record is not one of unqualified success. Retail investors continue to lose heavily in derivatives, new forms of misleading advice have outpaced the regulator's tools, adjudication is slow, and recovery for victims is uncertain. The concentration of legislative, executive and adjudicative power in one body demands continuing attention to procedural fairness and to the accountability of the regulator itself. The decisions of the Supreme Court and the Securities Appellate Tribunal have made clear that SEBI's authority is respected when exercised on evidence and in accordance with law.

The Securities Markets Code, 2025 offers an opportunity to consolidate the gains and address the gaps. If it is enacted with strong safeguards, objective standards and an investor-centred

approach to restitution, it can mark the next stage in the institution's evolution. A securities market runs on a promise, and the measure of SEBI's success will be whether the ordinary investor, in whose name its powers are conferred, finds that the promise is kept.