The Indian Journal for Research in Law and Management

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Editor-in-Chief – Dr. Muktai Deb Chavan; Publisher – Alden Vas; ISSN: 2583-9896

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PROTECTING THE RETAIL INVESTOR: REGULATORY CHALLENGES IN MODERN NSE TRADING AND MUTUAL FUNDS

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INTRODUCTION

The contemporary Indian market system has changed the monetary landscape, where it changes the conventional technique with current digital and remote method of implementation. The National Stock Exchange (NSE) operates daily volumes and mandatory provisions for investors, which are now in deep waters like organisational giants. But this feature also seeks and uncovers many loopholes in the system. Investors are not protected against the damages due to complexities in the algorithmic ecosystem, which includes little-regulated digital platforms, trading ecosystem, etc., where investors are keen to get the highest return in the shortest time. To reduce the damage, SEBI has included a framework based on restructuring and rolling out an ecosystem that includes trading, the algorithmic ecosystem, control of digital media, mutual fund framework, etc. The most challenging regulatory framework includes Futures and Options (F&O). This mechanism has evolved into a destructive ecosystem which, despite many such warnings, destroys the investment of an individual. According to a profitbility study of SEBI's FY26, approx. eighty-eight individuals are investors, where around ninety-five per cent of them lost their money, which amounts to around ninety-one thousand six hundred eighty-five crore in a single financial year.

The main issue lies in the buying option, which accounts for around ninety-two per cent of the losses. Because of misunderstandings of the mathematical calculation, investors with less awareness, profitability knowledge, timing knowledge, etc., register losses in their books of accounts. Although, because of SEBI's regulatory framework, F&O is reduced from approx. ninety lakh in FY25 to around seventy-nine lakh in FY26, but the average loss of an investor

is still locked at Rs. One lakh twenty thousand, which proves that the existing framework of SEBI is not as revolutionary as it was established to be.

ALGORITHMIC TRADING AND THE SPEED BUMP

The issue of F&O in the contemporary ecosystem of trading, one of the most important domains, includes pre-algorithmic model execution, which is commonly available through API brokers. The objective of the model is faster and emotionless implementation, especially in a 'black box' framework, where the retailers include 'untested code' in a live market. To deal with this issue, SEBI has introduced an algorithmic trading framework for retail investors, which was enacted in 2025. The middlemen are liable for the deployment of algorithms by their clients, which requires pre-approval for all deployments, including a unique Algo ID tagging mechanism, which establishes mandatory auditing of the accounts and management of risk control. The platform incorporates 'kill switches' mechanisms which prevents API access mandatorily to only registered IP addresses. This reduces the use of 'bots' in the trading ecosystem by preventing the chain reaction that could affect the NSE framework of the investing ecosystem.

TAMING THE FINFLUENCER WILD WEST

After the concept of execution, the investment mechanism has also introduced the concept of 'finfluencer', which is an unregistered financial influencer who uses social media and other digital platforms, like sharing a vast number of profit screenshots in trading, buying or selling calls, fixed minimum return through investment, etc., and acts as an advisor while manipulating their own followers. To deal with this issue, SEBI has enacted advisory regulations in 2025 to regulate entities such as middlemen (brokers), mutual funds, CIS, etc., which are not allowed to be aligned with paying or sharing data with finfluencers who are not registered with the mechanism established by SEBI. SEBI also incorporated the use of price tags in the investment market to educate investors, both national and foreign, where traditionally it was not incorporated; therefore, manipulating investors was easy. This development in the statutory framework prevents speculative guessing of the price of any commodity and increases the use of a real-time pricing system, where investors can buy or sell the commodity without any speculative concept, whereas traditionally investors had to guess the price of the commodity before purchasing or selling the commodity in the share market.

CONCLUSION

In the contemporary Indian trading ecosystem, direct investment poses a risk, whereas indirect investment such as mutual funds has its own kind of issues and risks. Mutual funds remain one of the most dominant domains for long-term investment, where investors focus on the wealth creation, but there is disparity in information transmission, including insider trading, etc., especially with Asset Management Companies (AMCs). The main issue lies in the buying option, which accounts for around ninety-two per cent of the losses. Because of misunderstandings of the mathematical calculations, investors with less awareness, profitability knowledge, timing knowledge, etc., register losses in their books of accounts. The issue of F&O in the contemporary trading ecosystem, one of the most important domains, includes pre-algorithmic model execution, which is commonly available through API brokers. After the concept of execution, the investment mechanism has also introduced the concept of a ‘finfluencer’, who is an unregistered financial influencer who uses social media and other digital platforms, like sharing a vast number of profit screenshots in trading, buying or selling calls, fixed minimum return through investment, etc., and acts as an advisor while manipulating their own followers. The contemporary Indian market system has changed the monetary landscape, where it changes the conventional technique with current digital and remote method of implementation.