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REGULATING SECURITES MARKET: EVOLUTION, ARCHITECTURE AND THE ROAD AHEAD

-AASHI KUMARI

INTRODUCTION

A securities market is one that relies on the trust of investors. An investor who buys shares in a company she has never visited relies on the accuracy of its disclosures, the fairness of the price at which she trades and the assurance that her broker will not disappear with her money. None of this arises spontaneously; markets left to themselves reward information asymmetry, and it is the party with more information that usually wins. Securities regulation exists to this imbalance.

India has one of the world's largest retail investor bases and a market that now runs on real-time digital infrastructure. Its regulatory framework has been built largely in response to crises and is now being rewritten as a whole. This article traces how the framework developed, describes how it works and examines its current fault lines.

WHY SECURIES MARKET NEED REGULATION

Three justifications recur in the literature.

- Information asymmetry. Issuers and insiders know far more than outside investors.
- Mandatory disclosure, whether in a prospectus or in periodic filings, reduces this gap.

- Market integrity. Price manipulation, insider trading and front-running erode confidence in prices as signals of value. If investors believe the game is rigged, they withdraw and capital formation suffers.

Systemic risk. Exchanges, clearing corporations and depositories are interconnected. The failure of one large broker or clearing member can spread quickly, and prudential norms, margin requirements and settlement guarantees exist to contain this.

Against these must be set the costs of regulation: compliance burdens, slower innovation and the risk of regulators overreaching. Good securities regulation is largely the art of balancing investor protection against market development; the Indian statute has always recognised both objectives.

HISTORICAL EVOLUTION

THE PRE- SEBI ERA

Before 1992, the primary statute was the Securities Contracts (Regulation) Act, 1956 (SCRA) which regulated stock exchanges and securities contracts, and the Companies Act, 1956 which governed public issues. Capital issues were controlled by the Controller of Capital Issues under the Capital Issues (Control) Act, 1947; this was a licensing regime (not a disclosure regime) in which the government decided whether a company could raise money and at what price.

SEBI's CREATION

The Securities and Exchange Board of India was set up in 1988 as a non-statutory body. It had little real power, and the 1992 securities scam showed how little. The scandal exposed the diversion of bank funds into share purchases and the manipulation of prices on the Bombay Stock Exchange. Parliament responded by giving SEBI statutory status through the SEBI Act, 1992, and the Controller of Capital Issues was abolished. The shift began from merit-based approval of issues to disclosure-based regulation.

CRISIS AND REFORM, IN CYCLE

The pattern has repeated since then. The Ketan Parekh episode of 2001 led to tighter norms on brokers, margin trading and market surveillance; the Satyam accounting fraud of 2009 prompted greater attention to corporate governance and disclosure; and the Sahara litigation,

which ended in a 2012 Supreme Court decision, confirmed SEBI's authority over collective investment and hybrid instruments raised from the public. Legislative amendments in 2014 then strengthened SEBI's powers of investigation and enforcement, including over collective investment schemes.

THE LEGAL AND ARTITECHT INSTITUTION

The framework has rested on three Acts:

• **SEBI Act, 1992:** establishes SEBI and sets out its powers and functions and penalties for violations.

• **SCRA, 1956:** governs the recognition and regulation of stock exchanges and listing of securities and contracts in securities.

• **Depositories Act, 1996:** enables dematerialised holding and transfer of securities, which is why paper share certificates have all but vanished.

These are supplemented by the Companies Act, 2013 (particularly its provisions on prospectuses, allotment and public issues) and SEBI's delegated legislation under its own Act.

SEBI's POWER

SEBI is unusual because it exercises three functions:

• **Quasi-legislative:** it frames regulations such as the ICDR (issue of capital and disclosure), LODR (listing obligations), Takeover, Prohibition of Insider Trading (PIT) and Mutual Fund regulations, and circulars and guidelines.

• **Quasi-executive:** it registers and supervises intermediaries, conducts inspections and investigations and can issue directions including interim orders that bar persons from the market, under Sections 11 and 11B of the SEBI Act.

• **Quasi-judicial:** through adjudicating officers and whole-time members, it decides on penalties and passes final orders.

This concentration is defensible on the grounds of expertise and speed but invites the criticism that one body is legislator, prosecutor and judge. Two safeguards respond to this: appeals to the Securities Appellate Tribunal (SAT) and from SAT on questions of law to the Supreme

Court. SEBI orders must also satisfy principles of natural justice and courts have repeatedly insisted that they be reasoned and proportionate.

MARKET INFRASTRUCTURE INSTITUTION

Stock exchanges, clearing corporations and depositories are known as market infrastructure institutions (MIIs), and they operate as front-line regulators. Exchanges run listing and surveillance functions and frame bye-laws subject to SEBI approval. Clearing corporations guarantee trade settlement and manage risk through margins and default funds. Depositories hold securities in electronic form. Because of their systemic role, SEBI regulates them more intensively than ordinary intermediaries.

OTHER REGULATORIES

Securities markets do not sit neatly within SEBI's borders: the RBI regulates banks, government securities and, in part, currency and foreign-exchange derivatives; IRDAI supervises insurers whose investments are large; PFRDA regulates pension funds; and the Ministry of Corporate Affairs administers company law. Overlaps and gaps between these regulators, for instance in hybrid instruments, is a recurring concern.

CORE AREA OF MARKET REGULATION

PRIMARY MARKET: TRADING REGULATION

Primary market regulations centre on disclosure: an issuer must file a draft offer document with SEBI, and the final document must contain material information on the business, risks, financials, promoters, litigation and use of proceeds. SEBI does not vouch for the merits of the issue; the philosophy is that investors are entitled to information, not to a guarantee of returns. Reforms in the past decade have shortened timelines (e.g. moved the gap between issue close and listing to three working days) and widened the use of UPI-based application to make IPOs more accessible.

SECONDARY MARKET: TRADING AND INTEGRITY

Here, the concern is fair and orderly trading: the main tools are:

• Prohibition of fraudulent and unfair trade practices (PFUTP): PFUTP Regulations, 2003 target manipulation, misleading statements and fraud.

• Insider trading: PIT Regulations, 2015 prohibit trading on unpublished price sensitive information (UPSI) and require companies to maintain internal controls and trading windows.

• Takeover regulation: SAST Regulations, 2011 require an open offer when acquirers cross specified thresholds, protecting minority shareholders from being left behind.

• Surveillance: exchanges and SEBI monitor unusual price and volume patterns, and increasingly use data analytics to detect coordinated behaviour.

Settlement itself has become faster: India moved to T+1 settlement for equities, which reduces counterparty risk but demands more of participants' operational systems.

INTERMEDIARIES

Brokers, depository participants, merchant bankers, investment advisers, research analysts, portfolio managers and mutual funds are all registered and supervised. Rules on client fund segregation, know-your-customer norms, suitability and conflicts of interest are central here.

Regulations on investment advisers and research analysts, for instance, seek to separate advice from distribution and to curb unregistered "finfluencer" activity.

LISTED COMPANIES AND CORPORATE GOVERNANCE

LODR Regulations, 2015 imposes continuous disclosure obligations on listed companies: prompt disclosure of material events, quarterly results, related-party transaction controls, board composition norms and independent director requirements. For minority investors, this is the day-to-day form of protection.

ENFORCEMENT AND REMEDIES

Enforcement takes several forms: SEBI can impose monetary penalties after adjudication, issue directions such as disgorgement and debarment, impound alleged illegal gains through interim orders and prosecute serious offences under Section 24 of the SEBI Act. It also runs a settlement mechanism, under which a respondent can settle proceedings without admitting or denying guilt by paying a sum and accepting conditions.

The debates here are familiar: interim orders that freeze assets or bar trading before a full hearing are powerful and controversial. They are justified by the risk of continued harm and of

dissipated funds but must be balanced against a person's right to a fair hearing. SAT and the courts have periodically corrected SEBI where reasoning was thin or the material relied on was not shared with the noticee. Long investigation timelines, litigation delays and low recovery rates from penalties also weaken deterrence.

Investor grievances are handled through SEBI's online complaint system (SCORES), exchange-level redress and arbitration mechanisms, and consumer forums or civil courts in appropriate cases.

CONTEMPRORARY CHALLANGES

RETAIL PATICIPATION AND DERIVATIVES RISK

Retail participation has grown sharply and with it concern about losses in equity derivatives. SEBI's own studies have indicated that a large majority of individual traders in the futures and options segment make net losses. The regulator has responded with measures such as higher contract sizes and limitations on weekly expiries. The underlying policy question is a hard one: how far should a regulator restrict products that are lawful but statistically harmful for many participants, without becoming paternalistic?

TECHNOLOGY AND ALGORITHM STRUCTURE

Algorithmic and high-frequency trading raise questions about fairness, latency advantages and manipulative strategies executed at speed. Regulators must also oversee technology failures at exchanges and brokers, cyber risk and third-party dependencies. The rise of artificial intelligence in advice and trading adds further questions about accountability when a model, rather than a person, makes the decision.

SOCIAL MEDIA AND UNREGISTERED ADVICE

Tips, "pump-and-dump" schemes coordinated via messaging platforms and unregistered advisers exploit the gap between what is legally regulated and what people actually consume as financial guidance. SEBI has acted against unregistered advisory activity, but enforcement at scale against anonymous online actors remains difficult.

CRYPTO AND NEW CLASSES ASSETS

Cryptographic assets sit awkwardly outside the established framework. Whether they are "securities" under Indian law depends on their structure and on the definition in the SCRA, and the lack of a clear regime leaves regulatory uncertainty for both investors and platforms.

CROSS BORDER AND MARKET ABUSES CASES

Complex trading strategies spanning cash and derivatives markets, possibly by foreign entities, test SEBI's surveillance and its ability to prove manipulative intent. Several high-profile proceedings of this kind in recent years have kept the boundary between aggressive but legitimate arbitrage and manipulation in sharp focus.

THE SECURITIES MARKET 2025

The most significant structural development is the proposed Securities Markets Code. According to PRS Legislative Research, the Code seeks to consolidate the SCRA, the SEBI Act and the Depositories Act into a single law, while retaining SEBI as regulator and SAT as the appellate body. It was introduced in the Lok Sabha on December 18, 2025 and referred to the Parliamentary Standing Committee on Finance. Lexplosion Solutions Some of its notable features, as described in commentary on the Bill:

• **Board expansion.** The number of "other members" on SEBI's board would rise from five to eleven. PRSIndia

• **Formal treatment of MIIs. Exchanges**, clearing corporations and depositories are designated as market infrastructure institutions, empowered to make bye-laws with SEBI's prior approval .

• **Grievance redress**. Commentary notes that the Bill reintroduces an Ombudsperson with a 180-day resolution timeline and moves some technical violations from criminal to civil-penalty treatment.

• **Inter-regulatory coordination**. It provides an express basis for SEBI to enter memoranda of understanding with other regulators and for joint action on instruments that straddle jurisdictions.

• **Market abuse.** Clause 93 lists acts of market abuse, including a residual power to specify further activities by regulation that harm market integrity.

The Bill has drawn both praise and caution: supporters see a coherent, modern, principle-based statute that ends the fragmentation of three decades of amendments; critics have raised concerns about the scale of delegated legislation. Former SEBI chairman M. Damodaran, for instance, warned that the Code moves the investor-protection objective from the preamble to a mere clause, and cautioned that the regulator could become "top-heavy" and reliant on delegated legislation. Other concerns include the vague residual limbs of market-abuse provisions and the implementation burden of a new regime. Business Standard

The Bill's parliamentary status may have moved since these sources were published, so anyone relying on it for academic or professional purposes should check its current position.

ASSESING THE FRAMEWORK

Three observations follow from the history above.

First, India's regime has been strongest where it is disclosure-based and weakest where it depends on slow, contested enforcement. Rules on paper are generally sophisticated, but the challenge is credible, timely consequences for violators.

Second, the concentration of powers in SEBI is tolerable only if procedure is robust. The legitimacy of the regulator rests on reasoned orders, meaningful hearings and effective appellate review. Any reform that increases SEBI's discretion should be paired with stronger accountability mechanisms, including regulatory impact assessment and consultation.

Third, regulation must keep pace with behaviour, not just with products. The risks now come as much from how people trade and where they get advice as from which instruments exist. Investor education and platform-level accountability are becoming as important as prohibitions.

CONCLUSION

Securities regulation in India has moved from the state control of capital issues to a regime overseen by a statutory regulator with wide powers. Its history has been shaped by scandals, and its current form reflects a series of corrections. The proposed Securities Markets Code is the first attempt to redesign the whole edifice rather than patch it. Whether it succeeds is likely

to depend less on the elegance of its drafting than on three practical matters: whether SEBI's expanded powers are matched with procedural safeguards, whether enforcement becomes faster and more certain, and whether the framework can adapt to retail-driven, technology-heavy markets without either stifling them or leaving investors exposed.