

# Evolution of Securities Regulation in India: An Analysis of Challenges and Evolving Jurisprudence

Markandey Singh  
Amity Law School, Noida

Dr. Devendra Singh  
Professor  
Amity Law School Noida

## ABSTRACT

*This research paper critically examines the evolution of securities regulation in India, with a primary focus on the institutional and legal development of the Securities and Exchange Board of India (SEBI). It outlines the transition from an unregulated, opaque market structure to a robust regulatory framework shaped by economic liberalization and key financial scandals such as the Harshad Mehta scam. The study analyzes historical legislative efforts including the Companies Acts and the Capital Issues (Control) Act, 1947 highlighting their limitations in investor protection and market transparency. It further evaluates SEBI's emergence as a statutory body, its regulatory tools, and its role in transforming India's capital markets through reforms in disclosure norms, market surveillance, and corporate governance. The paper also explores SEBI's expanded jurisdiction, technological interventions, and alignment with global standards. It concludes by reflecting on evolving jurisprudence and the persistent challenges in achieving market efficiency and investor trust.*

**Keyword: -** Securities Regulation, SEBI, Insider Trading, Harshad Mehta Scam, Investor Protection, Corporate Governance, Capital Markets, Disclosure Norms, Financial Liberalization, Market Integrity

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## Introduction

The regulation of the securities market in India has undergone a significant transformation, evolving through various stages of legislative reforms, institutional developments, and responses to market crises. Before the Securities and Exchange Board of India (SEBI) became the statutory regulator, India's capital markets faced numerous challenges, including low investor confidence, lack of transparency, and frequent market malpractices. This chapter will examine the historical trajectory of securities regulation in India, highlighting the evolution of key reforms, the impact of market crises, and the eventual establishment and strengthening of SEBI, which has played a central role in modernizing and regulating the Indian securities market.

### The Pre-SEBI Era: Lack of Regulatory Oversight

In the early years after India's independence, the country's capital markets were largely unregulated, with limited legal frameworks for overseeing market activities. The government initially relied on piecemeal legislation, such as the Companies Act of 1913 and the Capital Issues (Control) Act of 1947, to address corporate governance and capital raising, but these acts were not designed to tackle the full range of challenges faced by the growing securities market<sup>1</sup>.

The lack of a comprehensive regulatory body left the markets vulnerable to manipulation, fraud, and insider trading, while the absence of investor protection mechanisms contributed to poor investor confidence. Companies could raise capital without sufficient oversight

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<sup>1</sup> <https://www.orfonline.org/expert-speak/42915-controller-capital-issues-1947>

or disclosure, and market operators often engaged in speculative practices that undermined market integrity. As a result, investors faced significant risks without the security of a well-regulated and transparent marketplace.

### **The Emergence of Stock Exchanges and the Need for Regulation**

During the early years of independence, India saw the rise of stock exchanges in major cities, such as Mumbai, which became the hub of India's securities market. The Bombay Stock Exchange (BSE), in particular, was the largest and most influential exchange<sup>2</sup>. However, with this growth came the need for better market oversight. The absence of clear rules for stock trading, coupled with widespread market irregularities, led to calls for a more structured approach to securities regulation.

One of the earliest attempts to regulate the stock market came through the Securities Contracts (Regulation) Act (SCRA), 1956, which aimed to formalize stock exchanges and ensure that trading activities took place within a regulated framework. The SCRA established the legal foundation for broker registration, stock exchange recognition, and fraud control. Despite these efforts, the act was still insufficient to address broader market malpractices or to protect investors from the risks inherent in an under-regulated market.

### **The Crisis of the 1980s: Market Malpractices and the Need for Reform**

The securities market in India continued to face numerous problems throughout the 1970s and 1980s<sup>3</sup>. The lack of transparency, insider trading, price manipulation, and dubious practices by market operators created a toxic environment for investors. These issues became particularly acute during the Harshad Mehta scam of 1992, a massive stock market manipulation scheme in which the stockbroker Harshad Mehta used fraudulent means to artificially inflate stock prices, leading to a market crash.

The Harshad Mehta scandal was a turning point in India's securities market history. It exposed the deep flaws in the existing regulatory framework, highlighting the urgent need for a dedicated regulatory body to ensure transparency, prevent market manipulation, and restore investor confidence<sup>4</sup>. The scandal shook the foundations of the market and prompted the Indian government to take decisive action to reform the system.

### **The Establishment of SEBI: A Statutory Regulator**

In response to the Harshad Mehta scandal and the growing recognition of the need for stronger regulation, the Securities and Exchange Board of India (SEBI) was established in 1988 as a non-statutory body under the Ministry of Finance. Initially, SEBI's role was limited to acting as an advisory body, with limited powers to enforce regulations. However, the need for more effective regulation soon became apparent, and SEBI was granted statutory powers in 1992 through the Securities and Exchange Board of India Act, 1992.

The SEBI Act of 1992 marked the formal recognition of SEBI as the primary regulatory authority for securities markets in India. With this legislation, SEBI was given the mandate to regulate the securities market, protect investors, and ensure the development of a fair, efficient, and transparent market environment. SEBI's responsibilities included overseeing stock exchanges, regulating market intermediaries, ensuring corporate disclosures, and addressing market malpractices like insider trading and fraudulent practices.

### **SEBI's Role in Strengthening Investor Confidence**

Once SEBI was granted statutory powers, a series of reforms began aimed at improving market transparency, increasing investor protection, and ensuring the integrity of the securities market. Some of the early initiatives taken by SEBI included:

1. **Strengthening Disclosure Norms:** SEBI introduced comprehensive disclosure requirements for companies, mandating them to provide timely and accurate information to investors. This helped address the issue of asymmetry of information, where investors were often at a disadvantage compared to market insiders.

<sup>2</sup>[https://www.bseindia.com/static/about/History\\_Milestones.html#:~:text=BSE%2C%20the%20first%20ever%20stock,over%20the%20past%20143%20years.](https://www.bseindia.com/static/about/History_Milestones.html#:~:text=BSE%2C%20the%20first%20ever%20stock,over%20the%20past%20143%20years.)

<sup>3</sup> [https://www.sebi.gov.in/media/speeches/mar-2004/a-historical-perspective-of-the-securities-market-reforms\\_2882.html](https://www.sebi.gov.in/media/speeches/mar-2004/a-historical-perspective-of-the-securities-market-reforms_2882.html)

<sup>4</sup> <https://lawfullegal.in/the-harshad-mehta-scam-a-regulatory-wake-up-call/>

2. **Regulation of Market Intermediaries:** SEBI introduced a licensing and regulatory framework for market intermediaries such as brokers, merchant bankers, and mutual funds. This ensured that only qualified professionals could operate in the market, reducing the risk of fraudulent activities.
3. **Prohibition of Insider Trading<sup>5</sup>:** SEBI introduced strict regulations to prevent insider trading, which had been a significant concern in the pre-SEBI era. The introduction of rules to prevent trading based on non-public, material information helped create a level playing field for all market participants.
4. **Market Surveillance and Enforcement:** SEBI developed mechanisms for surveillance of the securities markets to detect and prevent market manipulation, price rigging, and other malpractices. The enforcement of penalties for violations helped deter fraudulent activities and built investor trust.
5. **Regulation of Public Offerings<sup>6</sup>:** SEBI took steps to ensure that public offerings, such as Initial Public Offerings (IPOs), were conducted in a fair and transparent manner. This included imposing conditions on pricing, disclosures, and the process of offering securities to the public.

### SEBI's Ongoing Reforms and Strengthening

Since its establishment, SEBI has continuously adapted to the changing dynamics of India's securities market. Over the years, SEBI has implemented several reforms to align the Indian capital markets with global standards, including the following:

- **Introduction of the National Stock Exchange (NSE):** SEBI facilitated the establishment of the National Stock Exchange, which introduced automated trading systems and greater transparency to the Indian securities market.
- **Introduction of Derivatives and Futures Trading:** SEBI oversaw the introduction of derivative instruments, such as futures and options, in the Indian markets, allowing investors to hedge risks and engage in more sophisticated trading strategies.
- **Investor Education Initiatives:** SEBI has undertaken numerous initiatives to promote investor education and awareness, helping retail investors understand their rights and the risks involved in securities markets.
- **Strengthening Corporate Governance:** SEBI has worked to improve corporate governance standards, requiring companies to adopt best practices in financial reporting, internal controls, and board structure. This has helped improve the overall transparency and accountability of companies listed in India.

### The Colonial Legacy and the Initial Legal Framework

The Colonial Legacy and the Initial Legal Framework of securities regulation in India provides important context for understanding how modern regulatory frameworks evolved over time. During British colonial rule, India's legal and economic systems were heavily influenced by British principles, including in the realm of trade, commerce, and corporate governance. This period marked the beginning of formalized corporate regulation, although the focus was initially on facilitating British interests rather than on investor protection or the regulation of securities markets.

#### The Companies Act of 1866

Modeled after British company law, the Companies Act of 1866 was India's first major piece of corporate legislation. This act was intended to provide a legal structure for the formation and operation of companies. It allowed businesses to incorporate under the law, offering limited liability protection to shareholders, which was a revolutionary concept at the time. However, the scope of this act was limited. While it provided basic regulations for company registration, management, and dissolution, it did not address the trading of shares or securities. The Indian stock market at the time was relatively undeveloped, and investor protection was not a priority.

#### The Companies Act of 1913

In the early 20th century, as the Indian economy started to grow and the demand for more robust corporate laws increased, the Companies Act of 1913 was introduced. This act was a more comprehensive framework for regulating corporate governance and included provisions on the incorporation of companies, the duties of directors, financial disclosures, and the auditing process. It was an attempt to regulate

<sup>5</sup> Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015

<sup>6</sup> <https://www.nseindia.com/companies-listing/raising-capital-public-issues-eligibility-equity-debt>

company operations more rigorously, but it still did not address the growing need for securities regulation or the protection of investors in the stock market.

While the Companies Act, 1913, was a significant step forward, it was still heavily oriented toward company management and less focused on market operations. The absence of specific rules for trading securities meant that the Indian stock market operated with little oversight, leaving it vulnerable to potential fraud, insider trading, and other market abuses.

### **The Absence of Securities Regulation**

During the colonial period, the need for a structured securities market was not a primary concern for the British government, as the focus was more on facilitating colonial economic interests rather than protecting the interests of Indian investors. The lack of provisions for regulating stock exchanges, the trading of securities, or safeguarding retail investors from market manipulation reflected the broader colonial approach that did not prioritize the economic welfare of the Indian population.

In the absence of comprehensive securities laws, markets operated relatively freely, with minimal oversight or investor protection. This created an environment ripe for exploitation and irregularities, as there were no mechanisms to address fraudulent practices, price manipulation, or unfair trading activities.

### **Legacy Impact**

The lack of a focused regulatory framework during the colonial period laid the foundation for the post-independence need for stronger, more formal securities regulation. The early legislative frameworks, while necessary for organizing and managing companies, highlighted the gaps that would eventually need to be filled with comprehensive laws to regulate market behavior, ensure investor protection, and create a transparent and trustworthy securities market.

The transition to a more robust legal framework for securities regulation came after India's independence in 1947, as the country sought to build an economy that would promote growth while safeguarding the interests of its citizens and investors. This shift led to the eventual creation of a more sophisticated regulatory regime, culminating in the establishment of the Securities and Exchange Board of India (SEBI) and the formal regulation of the securities markets.

### **Capital Issues (Control) Act, 1947 – A Precursor to SEBI**

The Capital Issues (Control) Act, 1947 played a significant role in the early regulation of India's capital markets, particularly in the post-independence era<sup>7</sup>. The Act was enacted at a time when the Indian government needed to channel investments strategically to support the country's reconstruction and development goals after World War II. It aimed to control the issuance of new capital in a way that aligned with the government's broader economic planning and priorities.

### **Context of the Capital Issues (Control) Act, 1947**

In the wake of World War II, India, like many other countries, faced significant economic challenges, including the need to rebuild its infrastructure, support industrial growth, and promote social welfare. The newly independent government needed to direct resources in line with national priorities. To achieve this, the government adopted a planned economy model, inspired by the Soviet model of Five-Year Plans, which required a regulated and controlled approach to capital formation.

India's financial system was still nascent at the time, and its capital markets were underdeveloped. The lack of regulation in capital markets, combined with a nascent economy, meant that there were risks of market instability, speculative activities, and a potential mismatch between the available capital and the economic needs of the country.

### **Objectives of the Capital Issues (Control) Act, 1947**

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<sup>7</sup> <https://www.orfonline.org/expert-speak/42915-controller-capital-issues-1947>



The primary aim of the Capital Issues (Control) Act, 1947 was to regulate the issuance of capital by companies. Under the Act, the Controller of Capital Issues (CCI) was responsible for approving any company's proposal to raise capital from the public. The Act gave the CCI broad powers to control and regulate the amount of capital issued by companies, as well as the terms and conditions of such issues.

The government's overarching goal was to ensure that capital was raised only for purposes that aligned with the country's economic priorities, which were determined through the Five-Year Plans. This meant that the government could restrict or prioritize certain sectors, ensuring that the capital raised was used for industries or projects deemed most important for national development. It also meant that the government could control the flow of capital to prevent speculative activities or overcapitalization in certain industries.

### Key Provisions and Functions of the Capital Issues (Control) Act

- **Approval Requirement:** Any company wishing to raise capital from the public (through equity or debt) had to seek approval from the CCI. This was a key feature of the Act and gave the government control over the amount and purpose of capital raised by companies.
- **Price Control:** The CCI had the authority to regulate the pricing of securities issued by companies. This was intended to prevent overpricing or underpricing of securities, both of which could lead to market instability or investor exploitation.
- **Allocation of Resources:** The government could allocate capital to certain sectors based on national priorities, helping to channel investments into key areas of development, such as infrastructure, manufacturing, or agriculture.
- **Regulation of Excessive Capitalization:** The Act also sought to prevent companies from raising excessive capital, which could lead to financial instability or market manipulation.

### Limitations and Gaps in the Capital Issues (Control) Act

While the Capital Issues (Control) Act had an important regulatory function, it was primarily focused on controlling capital formation in line with government priorities rather than addressing broader concerns related to the functioning of the securities market.

1. **Lack of Investor Protection:** One of the key shortcomings of the Act was its failure to address investor protection. It was primarily concerned with ensuring that capital was raised for development purposes, but it did not contain provisions to safeguard investors from market manipulation, fraud, or insider trading.
2. **Disclosure Deficiencies:** The Act did not mandate comprehensive disclosure requirements for companies issuing securities. As a result, there was little transparency about the financial health or performance of companies, leaving investors vulnerable to misinformation or lack of information when making investment decisions.
3. **Weak Enforcement of Market Integrity:** The Act focused more on the administrative process of controlling capital issues rather than addressing broader issues of market integrity. There were no provisions to ensure that securities markets operated fairly or transparently, and there was no specific authority to oversee and regulate day-to-day trading activities in the market.
4. **Market Manipulation and Insider Trading:** The Capital Issues (Control) Act did not include measures to combat market manipulation, insider trading, or other fraudulent practices. As a result, investor confidence remained low, and the capital markets failed to develop in a healthy, sustainable manner.

### The Impact of the Act on Investor Confidence and Capital Markets

Despite its regulatory intentions, the Capital Issues (Control) Act failed to instill investor confidence or lead to the development of a vibrant and transparent capital market. The absence of clear protections for investors, combined with the lack of market surveillance, meant that the Indian securities market remained underdeveloped and distrustful in the eyes of many potential investors.

The government's control over capital issues and the absence of a comprehensive regulatory framework for market behavior created a situation where companies could raise capital, but the market remained opaque and susceptible to inefficiencies. This weakened the role of the capital markets in mobilizing investment and providing companies with access to diverse sources of funding.

### Transition to SEBI and the Need for Modern Regulation

In the long run, the Capital Issues (Control) Act proved to be insufficient for regulating India's rapidly evolving capital markets. As the Indian economy grew and the securities market expanded, new challenges arose, including the need for investor protection, market

transparency, and fairness in trading. As a result, the Securities and Exchange Board of India (SEBI) was founded in 1988, offering a much-needed institutional framework for managing the Indian securities markets.

SEBI's establishment marked a turning point in the development of India's securities market, as it was specifically designed to address the problems left unaddressed by the Capital Issues (Control) Act. SEBI's mandate included enforcing regulations to prevent fraud, market manipulation, and insider trading, as well as implementing disclosure requirements to ensure that investors had the information they needed to make informed decisions.

Thus, while the Capital Issues (Control) Act, 1947 played a crucial role in regulating capital formation in post-independence India, it laid bare the limitations of a regulatory framework that lacked a focus on investor protection and the broader challenges of securities market integrity. The evolution from the Capital Issues (Control) Act to the formation of SEBI was a necessary step in building a modern, transparent, and investor-friendly capital market in India.

### **Need for Reform and Economic Liberalization**

By the 1980s, India's economy was burdened with systemic inefficiencies, a restrictive licensing regime (often referred to as the *License Raj*), and an overbearing bureaucracy that stifled innovation, private enterprise, and financial market development. The command-and-control economic model, inherited and expanded post-independence, prioritized central planning and state-led industrialization over market-driven growth. However, as global economies began to open up and modernize, it became increasingly clear that India's inward-looking economic policies were no longer sustainable or competitive.

Amidst these challenges, liberalization emerged as a necessary shift. Policymakers began exploring avenues to infuse market-based principles into the Indian economy. One of the key elements of this strategy was recognizing the capital markets as critical instruments for mobilizing resources, encouraging private investments, and fostering economic growth. Capital markets, if well-regulated and transparent, could channel household savings into productive sectors and offer corporations a viable source of funding beyond traditional bank credit.

However, the existing regulatory framework was wholly inadequate to support this vision of a liberalized and market-driven economy. The legal and institutional structures in place particularly the Capital Issues (Control) Act of 1947 and the office of the Controller of Capital Issues (CCI) reflected an outdated, pre-liberalization mindset. The CCI functioned more as a gatekeeper of capital flows than as a facilitator or regulator of dynamic market transactions. Every proposal to raise capital from the public had to be cleared by the CCI, a process criticized for being slow, opaque, and often arbitrary. This rigid control mechanism stifled innovation in financial instruments and discouraged efficient capital formation.

### **Growing Investor Grievances and Market Complexity**

The 1980s also witnessed a significant expansion in retail investor participation, driven in part by increased privatization of public sector undertakings (PSUs) and the emergence of a more aware middle class. However, this surge in market activity exposed the inadequacies of the regulatory system. Investor grievances were mounting due to issues such as:

- Delayed share allotments and refunds in public issues
- Lack of timely disclosures by companies
- Insider trading and price manipulation
- Inefficiencies in the functioning of stock exchanges
- The absence of grievance redressal mechanisms

At the same time, market transactions were becoming increasingly complex, with a growing number of players, financial instruments, and institutional investors entering the ecosystem. The existing legal frameworks, which were fragmented and outdated, failed to provide a comprehensive or coherent approach to deal with these developments. There was a clear gap in market supervision, enforcement, and investor protection areas that required urgent institutional reform.

### **Recommendations from Key Committees: Paving the Way for Reform**

Recognizing these issues, the government commissioned several expert committees to evaluate the state of financial sector regulation and propose reforms. Among the most influential were:

1. **The Narasimham Committee (1991)<sup>8</sup>**  
Chaired by M. Narasimham, this committee laid the foundation for India's financial sector reforms. It underscored the need for an efficient capital market as a prerequisite for a modern economy and emphasized the importance of *market discipline*, *competition*, and *independent regulation*. One of its key recommendations was the creation of an autonomous and professional regulatory authority for the capital markets.
2. **The Chakravarty Committee on the Monetary System (1985)<sup>9</sup>**  
Though primarily focused on monetary policy and the functioning of the Reserve Bank of India (RBI), this committee also stressed the need to develop alternative sources of financing for the private sector, which naturally pointed toward the strengthening of the securities markets. The committee highlighted the importance of deep and liquid markets to support monetary transmission and broader financial stability.

Both these committees converged on a crucial point: the need to move away from an approval-based regulatory model (like that of the CCI) and towards a disclosure-based regime that would empower investors with information and hold issuers accountable. Furthermore, they advocated for a specialized, independent regulatory body that would focus solely on the securities market separate from the Ministry of Finance's bureaucratic machinery.

### The Decline of the CCI and Rise of the Need for SEBI

These recommendations, coupled with increasing pressure from market participants and investors, laid the groundwork for a major overhaul of the Indian capital markets. The CCI was increasingly viewed as a relic of a bygone era, unfit to address the challenges of a modern, liberalizing economy. Its role became redundant in a world where markets needed speed, transparency, and flexibility.

Simultaneously, the government recognized that *restoring and strengthening investor confidence* was essential to mobilize long-term capital and sustain economic reforms. An independent regulator, with a clear mandate to protect investors, enforce market discipline, and ensure transparency, was no longer optional; it was imperative.

This growing consensus on reform would ultimately culminate in the creation of the Securities and Exchange Board of India (SEBI) as a statutory regulator in 1992, ushering in a new era of market regulation rooted in professionalism, independence, and investor protection.

### The Formation of SEBI (1988 – 1992)<sup>10</sup>

The evolution of a formal securities market regulator in India can be traced to the late 1980s, a period marked by increasing participation of retail investors and growing complexity in capital market transactions. Amid rising investor complaints and the emergence of manipulative practices in the stock market, there was a growing consensus that the Indian financial system required an institution dedicated to overseeing and regulating securities trading. This growing realization led to the establishment of the Securities and Exchange Board of India (SEBI).

### SEBI as a Non-Statutory Body (1988–1992)

In April 1988, the Government of India established SEBI through an executive resolution, primarily to act as a watchdog for the securities market. However, at this stage, SEBI was not a statutory body and lacked the legal authority to enforce its directions or regulations. It functioned as an advisory body under the administrative control of the Ministry of Finance and its scope was largely limited to:

- Monitoring market trends and investor activities
- Advising the government on securities market policies

<sup>8</sup> <https://www.insightsonindia.com/indian-economy-3/indian-financial-system-commercial-banking-system/narasimhan-committee-recommendation-on-banking-sector/>

<sup>9</sup> <https://www.thestudyias.com/blogs/genesis-of-4-inflation-target/>

<sup>10</sup> SEBI Act 1992

- Promoting investor awareness and education
- Coordinating with existing authorities like stock exchanges and the Controller of Capital Issues (CCI)

Though SEBI's formation was a step in the right direction, its lack of enforcement powers meant that it could neither regulate stock exchanges effectively nor penalize fraudulent behavior or unfair trade practices. This structural limitation severely hampered SEBI's ability to inspire investor confidence or deter malpractices.

### **Growing Market Malpractices and Structural Weaknesses**

Between 1988 and 1992, the Indian capital markets witnessed significant growth in trading volumes and the number of market participants. However, this growth was not matched by a corresponding increase in regulatory oversight. Manipulative practices, insider trading, price rigging, and lack of transparency became rampant. The environment was marked by weak corporate governance standards and a lack of effective surveillance mechanisms across stock exchanges.

Investors, especially retail participants, remained vulnerable in the absence of a powerful regulator. Market irregularities were often overlooked or inadequately addressed due to the overlapping and unclear jurisdiction of various regulatory entities, including the Ministry of Finance, stock exchanges, and the CCI.

### **The Harshad Mehta Scam: A Watershed Moment**

The demand for reform and a stronger regulatory institution reached a climax in 1992, when the Indian financial system was rocked by the Harshad Mehta securities scam one of the most infamous episodes in the country's financial history. Harshad Mehta, a stockbroker, manipulated the stock markets by exploiting loopholes in the banking system and government securities market, illegally diverting massive amounts of bank funds into the stock market to artificially inflate share prices of select companies.

The scam, which reportedly involved fraud worth over ₹4,000 crore, exposed deep regulatory voids, poor inter-agency coordination, and the complete lack of a robust monitoring mechanism. The aftermath of the scam saw an erosion of investor confidence, a collapse of stock prices, and public outrage demanding accountability and reform.

This crisis was a turning point in the history of Indian capital markets. The systemic failure underscored the urgent need for an autonomous, professional, and legally empowered securities regulator that could not only monitor the markets but also take timely enforcement action against offenders.

### **SEBI as a Statutory Body: The SEBI Act, 1992**

Responding to the crisis, the Government of India acted swiftly and decisively. In April 1992, the Securities and Exchange Board of India Act was passed by the Parliament, granting SEBI statutory powers and making it the sole regulator of the Indian securities market. With the enactment of this legislation, SEBI became an autonomous body with a clear mandate to:

- Regulate stock exchanges and securities markets
- Register and regulate intermediaries (e.g., brokers, merchant bankers, portfolio managers)
- Prevent insider trading and other unfair trade practices
- Promote investor protection and education
- Regulate takeover bids and substantial acquisition of shares
- Oversee the issuance of securities and ensure proper disclosures by companies

SEBI was now empowered to frame regulations, conduct inspections and investigations, and impose penalties. The Act also gave it the authority to take quasi-judicial actions, including issuing orders and passing rulings to enforce compliance with securities laws.

This statutory status transformed SEBI from a passive observer into an active regulator with far-reaching powers, thereby initiating a new era in the governance of India's capital markets. It also laid the groundwork for future regulatory reforms and investor protection mechanisms, many of which would be introduced in the following decades.



## The Harshad Mehta Scam and Legislative Response

The Harshad Mehta scam involved the misuse of banking receipts and inter-bank transactions to artificially inflate stock prices. Mehta used systemic loopholes to siphon off around ₹4,000 crores from the banking system into the stock market. This led to a market crash, wiping out investor savings and shaking public confidence.

In response, the Parliament enacted the SEBI Act, 1992, giving SEBI full statutory powers. SEBI was vested with the authority to regulate the securities market, protect investors, and promote its development.

Key powers granted under the SEBI Act included:

- Regulation and registration of stockbrokers, merchant bankers, portfolio managers, etc.
- Prohibiting unfair trade practices and insider trading
- Promoting investor education and training intermediaries
- Inspecting and conducting inquiries into intermediaries' operations
- Imposing monetary penalties and taking enforcement actions

## Post-1992 Reforms and SEBI's Expanding Mandate

The enactment of the SEBI Act, 1992 marked a decisive shift in India's securities regulation landscape, empowering SEBI to become a full-fledged statutory regulator with quasi-legislative, quasi-judicial, and quasi-executive powers. In the aftermath of the Harshad Mehta scam, SEBI embarked on a mission to overhaul the regulatory framework of the Indian capital markets. The primary goals were to enhance transparency, ensure market integrity, protect investor interests, and restore public trust in the securities ecosystem.

### SEBI (Prohibition of Insider Trading) Regulations, 1992 (revised in 2015)<sup>11</sup>

One of SEBI's earliest and most significant steps was the introduction of the Insider Trading Regulations in 1992, aimed at curbing the misuse of unpublished price-sensitive information (UPSI) by individuals in privileged positions such as company insiders, promoters, directors, or employees. The regulation prohibited:

- Trading in securities while in possession of UPSI
- Communication of UPSI to outsiders without legitimate purpose
- Insider trading by related parties and connected people

Over time, the regulation evolved, with major amendments introduced in 2015 to provide a more comprehensive definition of UPSI, enhance disclosure norms, introduce stricter penalties, and shift the burden of proof in certain cases onto the accused. The 2015 regulations aligned Indian laws more closely with global best practices and emphasized proactive compliance by listed companies through codes of conduct and designated compliance officers.

### SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (revised in 2011)<sup>12</sup>

With the liberalization of the Indian economy and growing M&A activity, SEBI recognized the need to regulate takeovers to ensure fair play and protect minority shareholders. The 1997 Takeover Code mandated:

- Mandatory disclosures upon acquiring a substantial stake in a listed company
- Open offer requirements for acquisitions above specified thresholds
- Transparent procedures for change in control of companies

<sup>11</sup> <https://www.sebi.gov.in/legal/regulations/aug-2021/securities-and-exchange-board-of-india-prohibition-of-insider-trading-regulations-2015-last-amended-on-august-05-2021-41717.html>

<sup>12</sup> <https://www.sebi.gov.in/legal/regulations/may-2024/securities-and-exchange-board-of-india-substantial-acquisition-of-shares-and-takeovers-regulations-2011-last-amended-on-may-17-2024-69218.html>

The regulation aimed to prevent hostile takeovers and undisclosed accumulation of shares by promoters or acquirers. A comprehensive overhaul in 2011, based on the recommendations of the Takeover Regulations Advisory Committee (TRAC), increased the trigger limit for open offers, clarified indirect acquisition rules, and enhanced procedural efficiency.

### **SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009<sup>13</sup>**

To regulate public offerings and ensure adequate, timely, and accurate disclosures, SEBI introduced the ICDR Regulations in 2009. These regulations replaced multiple older guidelines and created a uniform framework for various capital-raising instruments, including:

- Initial Public Offerings (IPOs)
- Follow-on Public Offerings (FPOs)
- Rights issues and bonus issues
- Preferential allotments and qualified institutional placements (QIPs)

The regulations mandated detailed disclosure of financials, risk factors, promoter backgrounds, and governance structures to enable informed investment decisions. The ICDR framework not only streamlined the process of capital raising but also strengthened corporate governance and enhanced investor protection.

### **Dematerialization of Shares**

Recognizing the inefficiencies and fraud risks in the physical shareholding system (such as theft, forgery, and fake certificates), SEBI spearheaded the dematerialization drive in the late 1990s in collaboration with the National Securities Depository Limited (NSDL) and later the Central Depository Services (India) Limited (CDSL)<sup>14</sup>.

The demat system transformed Indian securities markets by:

- Enabling paperless transactions
- Enhancing speed, efficiency, and security in trading and settlement
- Reducing instances of bad deliveries and transfer-related disputes

Today, demat accounts are mandatory for trading in most financial instruments, and India boasts one of the most advanced depository infrastructures in the world.

### **Establishment of the Securities Appellate Tribunal (SAT)**

To ensure accountability and provide an avenue for judicial redressal, SEBI established the Securities Appellate Tribunal (SAT) under the SEBI Act. SAT is an independent quasi-judicial body empowered to hear and adjudicate appeals against orders passed by SEBI, stock exchanges, and other market institutions like IRDAI and PFRDA (in financial sector contexts).

Key features of SAT include:

- Ensuring transparency and natural justice in regulatory actions
- Reducing the burden on civil courts in handling securities-related cases
- Allowing aggrieved parties to challenge SEBI's decisions within a structured legal framework

The SAT's functioning contributes significantly to the credibility and fairness of the regulatory process in India.

<sup>13</sup> <https://www.sebi.gov.in/legal/regulations/jun-2018/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-regulations-2009-last-amended-on-february-12-2018-39242.html>

<sup>14</sup> <https://www.bajajfinserv.in/nsdl-vs-csdl>

## Expanded Regulatory Jurisdiction

Over the years, SEBI's regulatory ambit has expanded well beyond stock exchanges and listed companies. It now oversees a wide spectrum of market participants and intermediaries, including:

- **Mutual Funds:** SEBI regulates fund structures, disclosure practices, advertising standards, and asset management companies.
- **Foreign Institutional Investors (FIIs)/Foreign Portfolio Investors (FPIs):** SEBI governs the entry, registration, and trading operations of foreign investors, ensuring compliance with domestic laws and encouraging foreign capital inflow.
- **Market Intermediaries:** Brokers, merchant bankers, credit rating agencies, underwriters, and portfolio managers are subject to registration and compliance under SEBI's regulatory framework.
- **Surveillance Systems:** SEBI has introduced advanced, real-time market surveillance mechanisms to detect manipulation, insider trading, and abnormal trading behavior.

The use of technology-driven oversight, algorithmic trading norms, cybersecurity regulations, and data analytics tools has further empowered SEBI to proactively monitor and intervene in market operations.

## SEBI's Role in Investor Protection and Market Development

Investor protection is one of the core pillars of SEBI's regulatory philosophy. Since its inception, SEBI has strived to create a safe, transparent, and accessible capital market for all participants, especially retail investors, who are often the most vulnerable to market malpractices<sup>15</sup>. To this end, SEBI has adopted a multipronged strategy comprising regulatory oversight, grievance redress mechanisms, education initiatives, and market reforms aimed at ensuring fair play and accountability.

### SCORES (SEBI Complaints Redress System)

One of the most notable tools in SEBI's investor protection arsenal is the SCORES (SEBI Complaints Redress System) platform, launched in 2011.

- SCORES is an online, centralized grievance redressal system that allows investors to file complaints against listed companies, intermediaries, and other market participants directly with SEBI.
- It provides a transparent and trackable complaint resolution framework, ensuring that investors can monitor the progress of their grievances in real time.
- The platform has significantly improved response times and accountability, compelling companies and intermediaries to address investor concerns within a stipulated time frame (generally 30 days).
- SEBI has made it mandatory for companies and intermediaries to digitally register and respond to complaints on SCORES, thereby enhancing the system's overall effectiveness.

This mechanism has played a crucial role in democratizing investor rights and building confidence in the regulatory system, particularly among small and first-time investors.

### Investor Awareness Campaigns

Recognizing that informed investors are empowered investors, SEBI has continuously invested in financial literacy and investor education programs across the country. These include:

- Mass media campaigns through TV, radio, print, and digital platforms to spread awareness about fraud prevention, IPO processes, mutual fund investments, and redressal mechanisms.
- Workshops and seminars in association with exchanges, depositories, and educational institutions to reach regional and rural investors.
- Creation of resource-rich portals such as the SEBI Investor Awareness website, which offers videos, FAQs, e-learning modules, and interactive tools to help retail investors make informed choices.

<sup>15</sup> <https://www.ispp.org.in/how-do-sebis-policies-and-regulations-protect-investors/>

SEBI also collaborates with Investor Associations (IAs), NGOs, and regional institutions to conduct localized campaigns in multiple languages. These initiatives are particularly targeted at Tier-2 and Tier-3 cities, where financial awareness remains low.

### **Mandatory Disclosures and the SEBI (LODR) Regulations, 2015<sup>16</sup>**

The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (commonly referred to as the LODR Regulations) are a cornerstone in ensuring transparency and corporate accountability.

Key highlights include:

- Listed entities are required to make timely and comprehensive disclosures on matters affecting investor decisions, such as financial results, board decisions, related party transactions, shareholding patterns, and key management changes.
- The regulations enforce uniform compliance standards across listed companies to protect investors from asymmetric information flows.
- Companies are also mandated to maintain a functional website with updated information for public access.
- The LODR framework is dynamic, with SEBI frequently issuing circulars and amendments to plug gaps and introduce global best practices in disclosure and governance.

These disclosure requirements empower investors to evaluate risks effectively and promote market discipline by reducing information asymmetry.

### **Corporate Governance Reforms**

SEBI has been at the forefront of strengthening corporate governance norms in India<sup>17</sup>. Several initiatives in this area include:

- Introduction of independent directors with strict eligibility criteria and clear roles in board-level decision-making.
- Regulation of executive compensation, ensuring that pay structures are linked to company performance and shareholder interests.
- Mandatory establishment of Audit Committees, Nomination and Remuneration Committees, and Risk Management Committees in listed companies.
- Implementation of the Kotak Committee recommendations (2017), which led to significant governance reforms, including improved disclosures, enhanced roles of boards, and stricter related party transaction norms.

These reforms have helped India improve its ranking on global indices such as the World Bank's Ease of Doing Business and have also increased foreign investor confidence.

### **Market Development Initiatives**

In addition to its investor-centric measures, SEBI has contributed significantly to developing and modernizing India's capital markets, making them more efficient, inclusive, and internationally competitive.

Some of SEBI's market development contributions include:

- Introduction of electronic trading systems, algorithmic trading regulations, and real-time surveillance mechanisms to reduce manipulation and increase efficiency.
- Regulation of mutual funds, Alternative Investment Funds (AIFs), Real Estate Investment Trusts (REITs), and Infrastructure Investment Trusts (InvITs) to diversify the investment landscape.
- Enabling ease of access to capital for startups and SMEs through platforms like NSE Emerge and BSE SME.

<sup>16</sup> <https://www.sebi.gov.in/legal/regulations/jul-2024/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-regulations-2015-last-amended-on-july-10-2024-84817.html>

<sup>17</sup> Acharya, Shankar, and Bhagaban Das. "Securities market regulation in India: Reflections on the role of Securities and Exchange Board of India (SEBI)." *Journal of Financial Regulation and Compliance* 15, no. 3 (2007): 270-293.



- Promoting responsible investing through frameworks like ESG (Environmental, Social, and Governance) disclosures, Business Responsibility and Sustainability Reporting (BRSR), and stewardship codes for institutional investors.

### **Surveillance and Enforcement**

To protect investors from fraud and manipulation, SEBI employs advanced market surveillance tools, including:

- Integrated Market Surveillance System (IMSS) and Data Warehousing and Business Intelligence System (DWBIS) to monitor unusual trading patterns and insider trading.
- Swift enforcement actions such as fines, trading bans, disgorgement orders, and prosecution of violators.

These measures deter misconduct and reinforce investor trust in the integrity and fairness of India's financial markets.

### **Judicial Endorsement and Legislative Reinforcement**

Indian courts have generally upheld SEBI's role as a vigilant market regulator. In *Clariant International Ltd. v. SEBI*, the Supreme Court emphasized SEBI's responsibility in protecting investor interests even if it meant exercising extra scrutiny over procedural matters. In *Sahara India Real Estate Corp. Ltd. v. SEBI*, the apex court affirmed SEBI's jurisdiction in protecting retail investors even in non-listed schemes.

Furthermore, Parliament has progressively amended SEBI's powers, especially through the SEBI (Amendment) Act, 2002 and SEBI (Amendment) Act, 2014, strengthening its enforcement powers, enhancing penalties, and enabling the recovery of dues.

### **Conclusion**

The evolution of securities regulation in India reflects the country's broader economic transition and the need for a robust institutional mechanism to safeguard investor confidence and market stability. SEBI's emergence as a statutory regulator was a necessary response to systemic deficiencies, and its development has been closely tied to India's economic liberalization and globalization.

This chapter provided a detailed view of the historical context, legal reforms, and institutional shifts that led to SEBI's creation and empowerment. The next chapter will focus on SEBI's specific statutory powers and the legal framework within which it operates to regulate the securities market.