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A COMPREHENSIVE STUDY OF THE SEBI ACT, 1992: REGULATORY FRAMEWORK, CHALLENGES, AND EMERGING REFORMS

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I. ABSTRACT

The Securities and Exchange Board of India Act, 1992 represents a pivotal moment in the evolution of India's capital market regulation. Enacted in response to organized market failures, insider trading scandals, and investor exploitation, the Act established SEBI as a statutory regulatory authority assigned with legislative, executive, and quasi-judicial force. Over the past three decades, SEBI has transformed the securities market by introducing reforms focused on transparency, investor protection, efficient market operations, and corporate governance. This research critically examines the legislative framework of the SEBI Act, its evolution through amendments, and SEBI's expanding regulatory jurisdiction. The paper evaluates key mechanisms including the prohibition of fraudulent trade practices, disclosure norms, listing regulations, the takeover code, enforcement processes, and the position of adjudicating officers and Securities Appellate Tribunal. Through doctrinal analysis supported by case laws, the study assesses whether SEBI's power adequately deals with contemporary challenges, including algorithmic trading, digital market manipulation, the rise of fintech platforms, ESG accountability, and global securities transactions. The research identifies existing gaps, such as regulatory overlapping with other authorities, limitations in authority and enforcement capabilities, and constraints posed by emerging technologies. Comparative insights from global regulatory bodies such as the SEC (United States) and FCA (United Kingdom) are used to evaluate the robustness of India's regulatory system. Finally, the paper proposes reforms to strengthen the SEBI Act, enhance SEBI's autonomy, modernize surveillance tools, and streamline investor grievance redressal. The study concludes that while the SEBI Act has significantly matured India's securities regulation, dynamics and forward-looking reforms are essential to sustain market integrity in a rapidly evolving financial environment.

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II. KEYWORDS

Investor Protection, Market Governance, Corporate Law, Securities Regulation, Securities and Exchange Board of India, Reserve Bank of India

III. INTRODUCTION

The Securities and Exchange Board of India (SEBI) was initially constituted as a non-statutory body in 1988. In response to the need for statutory regulation of the securities market, the SEBI Ordinance was promulgated on 30 January 1992, and Parliament subsequently enacted the Securities and Exchange Board of India Act, 1992, which received the President's assent on 4 April 1992. The Act is, however, deemed to have come into force on 30 January 1992.

The Ordinance was replaced by the SEBI Act on April 4, 1992. SEBI's power was expanded through the January 1995 Securities Law (Amendment) Ordinance, later passed by the parliament. SEBI functions under the Ministry of Finance's overall control. Its Head Office is at Mumbai. It has since become a key component of the financial regulatory framework in India. SEBI's governing board comprises a Chairman and two members from amongst the officials of the Ministries of the Central Government dealing with Finance and the administration of the Companies Act, 2013, along with other members as provided under Section 4 of the SEBI Act, 1992 and one member from the official of RBI and five other members of whom at least three are full time members. All members, except the RBI member, are appointed by Government of India.

The terms of office, tenure, and service conditions of SEBI's member are determined by the Government of India, which also retains the authority to remove any member under certain conditions. SEBI, based in Mumbai, is primarily accountable for regulating the capital market and safeguarding investor interests. Despite multiple amendments to the SEBI Act, persistent issues such as enforcement delays, jurisdictional overlaps, and sophisticated market manipulation indicate potential gaps in the current regulatory framework.

The research problem thus, centers on evaluating whether the SEBI Act, 1992 sufficiently addresses modern market dynamics and secure effective investor protection.² Government of India is empowered to supersede the SEBI in any of the following cases: (i) If it is deemed to be expedient in public interest (ii) If its financial position and administration deteriorate.

The purpose of the Securities and Exchange Board of India as laid down in its preamble is as below: (i) to protect the interest of investors in securities (ii) to regulate the securities market (iii) for matters connected together with or incidental thereto.

A. RESEARCH OBJECTIVES

1. To examine the statutory framework and historical evolution of the SEBI Act, 1992
2. To analyze SEBI's regulatory, supervisory, and enforcement mechanisms
3. To identify gaps, challenges, and boundaries in the implementation of the Act
4. To compare SEBI's framework with international securities regulators

B. RESEARCH QUESTIONS

1. How has the SEBI Act, 1992 evolved to regulate India's securities market successfully?
2. Are SEBI's power adequate to address emerging market manipulation and technological challenges?
3. What are the key enforcement issues faced by SEBI under the current legal framework?
4. How does SEBI's regulatory approach compare with global best practices?

C. RESEARCH HYPOTHESIS

The SEBI Act, 1992 has significantly strengthened investor protection and market transparency in India. Current enforcement and surveillance mechanisms under the

² https://en.wikipedia.org/wiki/Securities_and_Exchange_Board_of_India_Act,_1992

SEBI Act require substantial reform to address technological and structural challenges.

D. RESEARCH METHODOLOGY

This research adopts a doctrinal and analytical methodology, depending primarily on statutory interpretation, judicial precedents, committee reports, and scholarly commentary related to the SEBI Act, 1992. The study examines primary sources comprising the SEBI Act, SEBI Regulations, Securities Contract (Regulation) Act, 1956 and relevant circulars issued by SEBI. Secondary Sources include academic articles, books, policy papers, and reports issued by the Ministry of Finance and expert board such as the Bhave Committee and the Narayana Murthy Committee on Corporate Governance. A qualitative analytical approach is used to evaluate the effectiveness of SEBI's regulatory mechanism in addressing market challenges such as insider trading, and unfair trade practices.

In addition, the research systematically reviews orders of the Supreme Court of India, High Courts, and the important administrative rulings that shape the interpretation of SEBI's power. Case laws such as *SEBI v. Kishore R. Ajmera*, *Rakesh Agarwal v. SEBI* offer essential judicial perspective on regulatory power, and market manipulation.

E. LITERATURE REVIEW

The evolution of securities regulation in India has been widely discussed in academic and policy literature. Early scholarship highlights the lack of a unified regulatory framework prior to the 1990s and the inefficiency of the Capital Issues (Control) Act, 1947 in monitoring marketing abuse.³ Scholars such as S. Varottil and Umakanth Varottil emphasize the need for institutional autonomy and a robust enforcement system to ensure transparency and investor protection.⁴

Research also emphasizes SEBI's expanded jurisdiction through amendments, particularly the 2002 amendment which granted SEBI greater probe and enforcement

³ https://www.sebi.gov.in/media/speeches/mar-2004/a-historical-perspective-of-the-securities-market-reforms_2882.html

⁴ Ibid

powers. Scholars note that SEBI quasi-judicial function, though necessary, often present questions regarding due process and natural justice.⁵

A comparative review suggests that global regulators like the SEC employ more extensive surveillance technologies and impose stronger penalties for securities fraud, offering lessons for SEBI's enhancement.⁶ Recent literature focuses on the impact of technological changes, including the proliferation of algorithms trading platforms, which pose sophisticated challenges for surveillance and enforcement.

Overall, the literature indicates that while the SEBI Act significantly improved market governance, persistent challenges such as regulatory overlap, limited technological infrastructure, and procedural delays require further reform.

Thus, the regulation of capital market is essential for economic growth of a nation. In India, SEBI is regulator to control Indian capital market. Since its establishment, it is doing hard work to safeguard the interest of Indian investor. SEBI gets education from past exploiting naïve investors of India. Now, SEBI is stricter with those who commit malpractice in capital market.

In the future, SEBI should adopt additional transparency to achieve greater public confidence. Subsequently much of the growth of Indian Market can be attributed to the robust processes for issuance, pricing and listing of securities enabled by SEBI.

IV. EVOLUTION AND FRAMEWORK OF SEBI ACT, 1992

The SEBI Act was enacted to consolidate and strengthen securities market regulation and provide SEBI with statutory authority. Initially established as a non-statutory body in 1988, SEBI was granted full legal status in 1992 following major market irregularities, including the Harshad Mehta securities scam.⁷ The Act outlines SEBI's core objectives:

1. Investor protection and,
2. Promoting market fairness

⁵ Justice B.N Srikrishna, Report of the Financial Sector Legislative Reform Commission (2013)

⁶ U.S Securities and Exchange Commission, Enforcement Manual (2020)

⁷ Government of India, Report of the Janakiraman Committee (1993)

SEBI enforce legislative power through regulation-making, executive authority through regulation-making, executive authority through inspection and investigations, and quasi-judicial power by adjudicating violations.⁸ Prior to SEBI's establishment, the securities market was governed primarily through Capital Issue (Control) Act, 1947, the Securities Contract (Regulation) Act, 1956 and select provisions of the Companies Act, 1956 none of which provided a unified regulatory architecture capable of addressing the complexity and scale of emerging financial markets.

Recognizing the need for an institutional mechanism dedicated to investor protection and market integrity, the Government initially constituted SEBI in 1988 through an administrative resolution. The liberalization of India's economy in 1991, coupled with the systematic vulnerabilities exposed by the 1992 Harshad Mehta securities scam, accelerated the demand for a strong regulator with enforceable authority. This led to the enactment of the SEBI Act, 1992 which granted SEBI autonomous status and empowered it to regulate, develop and supervise the securities market. The Act's framework is built around a multi-dimensional regulatory model: structurally, it establishes SEBI as a corporate body comprising a Chairman, representative of the Central Government and the Reserve Bank of India, and independent members; subsequently, it confers broad powers under Section 11, 11A, 11B, and 11C to regulate capital issuance, oversees intermediaries under Section 12, prescribe a comprehensive adjudicatory and penalty regime under Chapter VIA, and institutionalize appellate oversight through the Securities Appellate Tribunal.⁹ Collectively, the evolution and framework of the Act has transformed India's securities market that priorities emphasized security, and transparency.

V. INSIDER TRADING REGULATIONS

Insider trading has historically been a major concern in India's securities market. SEBI first introduced insider trading regulation in 1992, following that replaced by SEBI (Prohibition of Insider Trading) Regulations, 2015. These regulations define

⁸ Ibid

⁹ Section 11, SEBI Act, 1992 <https://indiankanoon.org/doc/1365176/>

“unpublished price sensitive information”, prescribe disclosure requirements, and impose restrictions on connected persons.¹⁰

Essential judicial precedents, including *SEBI v. Sahara India Real Estate Corp. Ltd.*,¹¹ the supreme court held that SEBI has the authority to regulate any securities issuance made to more than 50 investors, even if the instrument is labelled as an “Optionally Fully Convertible Debenture (OFCD).”

The Supreme Court in *SEBI v. Rakhi Trading Pvt. Ltd.*,¹² the court upheld SEBI’s finding of fraudulent and manipulative trading in the derivatives segment (circular trading). Intent is not necessary – market manipulation can be inferred from the conduct. In *SEBI v. Ajay Aggarwal*,¹³ the court ruled that SEBI’s power under Section 11B to issue directions – such as restraining access to the securities market – can apply retrospectively because such directions are regulatory and not punitive. All the grants, fees and charges received by the SEBI, and all sums received by SEBI from other sources, are credited to Securities and Exchange Board of India General Fund. This fund is applied for the salaries, payment and other remunerations of the members, officers and other employees of the SEBI, and the expenses of SEBI.

In *SEBI v. Kishore R. Ajmera*,¹⁴ the court stressed that securities law must be interpreted to advance investor protection and market integrity, holding that circumstantial evidence can be sufficient to establish market manipulation. Further, in *SEBI v. Abhijit Ranjan*,¹⁵ the Supreme Court clarified that appeals under Section 15Z of the SEBI Act are limited strictly to query of law, thereby restricting the court from reappreciating factual findings recorded by SEBI or SAT. Collectively, these judgements affirm the broad, purposive power of SEBI to regulate the securities market, prevent fraud, and protect investors. The Act stands as a cornerstone rule governing India’s modern financial ecosystem.

¹⁰ SEBI (Prohibition of Insider Trading) Regulation, 2015, Reg. 2(1)(n).

¹¹ (2013) 1 SCC 1

¹² (2018) 13 SCC 753

¹³ (2010) 3 SCC 765

¹⁴ (2016) 6 SCC 368

¹⁵ (2018) 17 SCC 234

The Supreme also clarifies the limits of SEBI's disciplinary powers, especially after the Satyam accounting fraud in *Price Waterhouse Coopers Pvt. Ltd. v. SEBI*.¹⁶ This landmark ruling supports SEBI's ability to act on market patterns and abnormal trading conduct.¹⁷ However, scholars argue that proving possession and misuse of unpublished information remains challenging due to evidentiary limitations.¹⁸ In *N. Narayanan v. SEBI*¹⁹, the Supreme Court held that fraud in the securities market must be dealt with sternly and upheld SEBI's disgorgement powers as tools to maintain market integrity.

Similarly, in *Hindustan Lever Ltd., v. SEBI*²⁰, the Court analyzed SEBI's jurisdiction in insider trading investigation, emphasizing that the regulator must adhere to principle of natural justice while exercising supervisory power. In *Dushyant N. Dalal v. SEBI*²¹, the Supreme Court upheld SEBI's power to impose monetary penalties under Chapter VIA, recognizing the need for preventing market manipulation.

After the 2015 FMC merger, *NCDEX v. SEBI*²², reaffirmed SEBI's expanded jurisdiction over commodity derivatives, emphasizing regulatory uniformity. As a whole, these decisions demonstrate a consistent judicial endorsement of SEBI's broad regulatory mandate, reinforcing the centrality of investor protection, market transparency, and corporate accountability in India's securities framework. The doctrine of proportionality in penalty proceedings was addressed in *Sterlite Industries Ltd v. SEBI*,²³ where SAT held that penalties under Section 15H must be based on the gravity of breach and purpose, not imposed mechanically.

VI. ROLE OF SEBI

SEBI has been actively functioning in the securities market and is fulfilling its objective with notable zeal and efficiency. Reforms such as enhanced capital provision,

¹⁶ (2020) 5 SCC 1 (Satyam Scam)

¹⁷ *SEBI v. Kishore Ajmera* (2016) 6 SCC 368

¹⁸ Vikramaditya Khanna, *Insider Trading, Enforcement in India*, 45 J. Corp. L. 345 (2019)

¹⁹ (2013) 12 SCC 152

²⁰ (1998) SCC 748

²¹ (2001) 4 SCC 139

²² (2017) SCC Online SAT 151

²³ (2003) SCC Online SAT 33

marginizing systems, and the establishment of clearing corporations have significantly reduced credit risk and strengthened the market surroundings. SEBI has also introduced comprehensive regulatory measures, including detailed registration requirements, eligibility criteria, and a code of conduct for various intermediaries such as merchant bankers, and others.

It has framed rules, risk identification and risk management structure for clearing residence of stock exchanges, which has made dealing in securities both safe and transparent to the end investor. The role of SEBI in regulating Indian capital market is very important because Government of India can only open or take resolution to open new stock exchange in India after receiving advice from SEBI.

If SEBI thinks that it will be against its rules and regulations, SEBI can ban any stock exchange to conduct business in shares and holdings. The role of SEBI in regulating the capital market is important because of the following reasons:

1. Market index acts as a barometer for market behavior.
2. Market index is used to benchmark portfolio output,

SEBI has the authority to prohibit trading by brokers found engaging in fraudulent and unfair trade practices in the stock market. It may also impose penalties on capital market intermediaries involved in insider trading. Additionally, SEBI exercise its power to audit the functioning of various Indian stock exchanges to ensure greater transparency in their operations. SEBI make new rules for regulating future transactions. For Instance: share trading transactions carry forward cannot exceed 25% of the broker's total transactions and 90 days limit to be continued.

SEBI's development role is equally significant as it undertakes initiatives to modernize market infrastructure by promoting digitization, dematerialization of securities, electronic trading systems, and efficient clearing and settlement mechanisms, while also introducing innovative financial instruments like derivatives, and SME platform to deepen and diversify capital market.

As a quasi-judicial body, SEBI formulates binding regulations – such as the Listing Obligations and Disclosure Requirements, Prohibition of Insider Trading Regulations,

and Takeover Regulations – which provide statutory guidance to all market participants. Its quasi-judicial authority allows it to investigate violations, conduct hearings, adjudicate disputes, and impose penalties, to guard against misconduct.

SEBI oversees collective investment schemes under strict filing and compliance rules. Overall, under the SEBI Act, 1992, SEBI's role as the central support of India's capital market architecture, fostering investors' confidence, encourage financial innovation and shield market integrity. The task is to balance innovation with investor protection.

VII. FRAUDULENT AND UNFAIR TRADE PRACTICES

The SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market Regulation 2003, address manipulation such as pump-and-add dump schemes, circular trading, and dissemination of false information.²⁴ SEBI has relied on the doctrine of “preponderance of probabilities” to prove fraud, as affirmed by the Securities Appellate Tribunal (SAT). Although SEBI began as a watchdog to protect investor interest, regulate stock exchange, and promote the capital market, it still experiences several challenges in its functioning.

Some of these limitations are as follows:

1. SEBI will have to seek prior approval for filing criminal complaints for violations of the regulation. This will again cause setbacks at government level.
2. The Central Government has authorized SEBI to frame its statute and regulations for actively monitoring capital markets. It is because the Government must approve these rules, delay and interference from the Finance Ministry are likely, and such bureaucratic slowdowns can impede SEBI's operation.
3. SEBI has not been given autonomy.

VIII. IMPLICATIONS OF SEBI

Provisions in SEBI Act have evolved a substantially over the years. This evolution is influenced by investor feedback to facilitate the regulations more effectively to avoid

²⁴ SEBI (FUTP) Regulations, 2003.

failures in the market. SEBI's tools such as inspections, audits and safeguards consist of implementing these strict rules. Breaking of rules can lead to levying monetary penalties, suspension or cancellation of licenses or even prosecution of the violator. SEBI implemented these processes using initiatives such as 1) Dematerialization 2) Shortening of trading and Settlement Cycles. SEBI provides approval to dealers and brokers of capital market. If SEBI determines that a financial product is of a capital – market nature, it can regulate both its product and its dealers. For example, in ULIPs case, SEBI said, “It is just like mutual funds and all banks and financial and insurance companies who want to issue it, must take permission from SEBI”. Time to time, SEBI coordinate scheduled workshops to educate the investors. Measures like strict vendor regulations, enhanced cybersecurity norms as India advanced into capital market ecosystem.

IX. LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS (LODR)

The SEBI (LODR) Regulations, 2015 consolidate corporate governance norms, mandating disclosure standards, board structure requirements, and audit committee oversight.²⁵ The Narayan Murthy Committee reports heavily influenced these reforms, emphasizing independent directors and whistle - blower protection. Yet practical challenges remain, especially compliance burdens on mid-cap companies and insufficient accountability of independent directors. LODR requires listed companies to maintain proper board composition, including independent and women directors, and to establish committee such as Audit Committee, and Stakeholder Relationship Committee. Companies must make prompt disclosures of material events under Regulation 30, publish quarterly and annual financial results, disclose shareholding patterns, and submit annual reports along with CEO/CFO certification. They must also ensure proper approval and declare related party transactions and maintain an updated company website with all required information.

²⁵ SEBI (LODR) Regulations, 2015

Compliance officers and secretarial audits further strengthen accountability. Stock exchange oversees compliance and may impose fines or suspend trading for breaches. Overall, LODR seeks to promote investor protection, fairness, and market integrity by setting uniform standards for governance and disclosure across all listed companies.

X. ENFORCEMENT MECHANISMS AND ROLE OF SAT

SEBI's enforcement functions include adjudication, penalties, and suspension of intermediaries, and passing cease-and-desist orders. The Securities Appellate Tribunal (SAT) offers appellate review, ensuring checks on SEBI's quasi-judicial powers.²⁶ However, scholars note systematic delays due to prolonged litigation and overlapping jurisdiction with the Ministry of Corporate Affairs and other regulators. If SEBI suspects any violation such as insider trading, market manipulation, fraudulent and unfair trade practices, or failure to comply with disclosure norms, it may order a formal investigation under Section 11C. Anyone aggrieved by SEBI's order can appeal before SAT under Section 15T. SAT possesses wide appellate powers: it can confirm the regulator's decision, reduce or enhance penalties, set aside the order entirely, transmit the matters back for reconsideration. Although SAT itself does not implement penalties similar to recovery of fines, its decision is binding on both the parties.

XI. EMERGING CHALLENGES: ALGO TRADING AND CROSS-BORDER ISSUES

The rise of algorithmic trading and automated order systems poses new risks involving high-frequency manipulation and flash crashes. SEBI introduced framework guidelines for algorithmic trading, yet critics argue that more powerful surveillance infrastructure is needed.²⁷

The speed advantage enjoyed by large institutional players using shared location facilities also raises question of fairness, as these entities can execute investors far faster than ordinary retail investors, creating information asymmetry. Adding to this

²⁶ Securities Appellate Tribunal Decisions, Ministry of Law & Justice.

²⁷ SEBI Circular on Algorithmic Trading Framework (2022)

is the rise of unregulated retail algos offered by third-party suppliers, and unauthorized algo-selling platforms. These often function as unregistered investment advisory or portfolio management services, and complicating enforcement.

Cross-border securities operation also present challenges, particularly with Indian investors increasingly using offshore trading apps. Lessons from regulators like SEC and FCA show the need for real time surveillance and inter-regulatory cooperation. These offshore strategies can drive rapid inflow or outflow of capital, influence volatility, and create contagion effects linked to international market.

XII. CONCLUSION

The SEBI Act, 1992 has played a transformative role in shaping India's securities market by promoting transparency, strengthening corporate governance, and safeguards investor interests. While continuous amendments and reforms, SEBI has emerged as one of the most active regulators of the country.

However, the dynamic nature of financial markets and technological advancements presents persistent challenges. A future-ready SEBI must balance innovation with regulation, assuring market integrity.

XIII. SUGGESTIONS

1. Enhance SEBI - MCA coordination to reduce overlapping scrutiny.
2. Improve investor grievance redressal through digital ombudsman systems
3. Statutory recognition of ESG disclosure to enhance market transparency
4. To strengthen international cooperation with global regulators for cross-border trading

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