

A STUDY ON SEBI REGULATIONS AND THEIR IMPACT ON STOCK MARKET TRANSPARENCY IN INDIA

AUTHOR – GODHAWARI P, ASSISTANT PROFESSOR AT SCHOOL OF LAW, VISTAS, CHENNAI

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ABSTRACT

The Securities and Exchange Board of India (SEBI) plays a pivotal role in maintaining transparency, fairness, and efficiency in India's stock market. This study examines SEBI's regulatory framework and its impact on enhancing stock market transparency, investor confidence, and corporate accountability. Established in 1988 and granted statutory powers in 1992, SEBI has introduced several landmark regulations such as the SEBI (Prohibition of Insider Trading) Regulations, 2015, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011. These frameworks have strengthened investor protection, improved disclosure norms, and curbed unethical practices like insider trading and market manipulation. The paper also evaluates SEBI's enforcement and surveillance mechanisms, including the Integrated Market Surveillance System (IMSS) and the Data Warehousing and Business Intelligence System (DWBIS), which have enhanced real-time monitoring and fraud detection. Despite these advancements, emerging challenges such as algorithmic trading, cryptocurrency-related risks, and global financial integration necessitate continuous regulatory evolution. The study concludes that SEBI's proactive initiatives have significantly improved market transparency and investor trust but emphasizes the need for greater technological integration, faster dispute resolution, and stronger global cooperation. Recommendations include the adoption of AI-driven surveillance, stricter corporate governance enforcement, investor education programs, and clear guidelines for digital assets. Through these measures, SEBI can further strengthen India's financial ecosystem and reinforce its position as a transparent and globally competitive investment destination.

KEYWORDS

SEBI – Stock Market – Market Manipulation – Insider Trading – Regulations

INTRODUCTION:

Because it facilitates capital formation, offers investment possibilities, and ensures effective resource allocation, the stock market is essential to a nation's economic success. However, a stock market needs to be fair, transparent, and well-regulated in order to operate well. By guaranteeing that all players have equal access to pertinent financial data, transparency in the financial markets lowers the possibility of insider trading, fraud, and market

manipulation. The major regulatory agency in India in charge of preserving stock market openness and safeguarding investor interests is the Securities and Exchange Board of India (SEBI). SEBI, which was founded in 1988 and given legislative authority in 1992, has been instrumental in forming the Indian securities industry. Its regulatory structure is intended to guarantee that the market functions effectively, equitably, and in conformity with global norms. The SEBI (Prohibition of Insider Trading)

Regulations, 2015, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 are just a few of the important regulations that SEBI has introduced over the years. The Indian stock market is now more transparent and investor-friendly as a result of these legislation strengthening of corporate governance, investor protection, and disclosure standards. There are still issues with guaranteeing total transparency in spite of SEBI's efforts. Investor trust is still at risk from insider trading, corporate fraud, market manipulation, and the failure to disclose significant information. New regulatory issues are also brought about by the growth of algorithmic trading, foreign institutional investments (FIIs), and new financial products like cryptocurrency. By strengthening monitoring systems, enforcing harsher sanctions, and utilizing technologically advanced regulatory instruments, SEBI has taken the initiative to solve these issues. The purpose of this study is to examine SEBI's rules and how they affect India's stock market's transparency. It looks at how SEBI might improve market surveillance systems, strengthen corporate governance, and stop insider trading. The study also evaluates the impact of SEBI's enforcement actions on various market participants, such as retail investors and foreign institutional investors (FIIs), as well as their efficacy. This study looks at SEBI's changing enforcement tactics, regulatory framework, and current issues in an effort to provide light on how SEBI might improve investor trust and market transparency even more. In order to maintain the effectiveness, transparency, and global competitiveness of India's stock market, the study will also recommend legislative and regulatory changes.

A HISTORICAL OVERVIEW OF THE DEVELOPMENT OF SEBI REGULATIONS:

Originally created in 1988 as an advisory body, the Securities and Exchange Board of India (SEBI) was granted legislative authority in 1992 by the SEBI Act. The growing complexity of the

Indian stock market and worries about insider trading, market manipulation, and fraudulent activity led to the necessity for a regulating agency. The Capital Issues (Control) Act, 1947, which governed the Indian stock market before SEBI was founded, was antiquated and insufficient to handle contemporary financial markets. Early in the 1990s, India's economy was liberalized, which made a strong regulatory structure necessary to draw in international capital and safeguard investors. The main goals of SEBI are to oversee the securities industry, safeguard the interests of investors, and guarantee honest and open market operations. The SEBI (Prohibition of Insider Trading) Regulations of 1992 and the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations of 1997 are two of the historic regulations that SEBI has implemented over the years. SEBI has developed steadily throughout time, fortifying corporate governance guidelines, disclosure requirements, and enforcement tactics. The goal of the 2015 SEBI (Listing Obligations and Disclosure Requirements) Regulations was to increase accountability and transparency among listed businesses. Additionally, SEBI has been vigilant in addressing market failures and preventing financial scams, like the Satyam affair in 2009 and the Harshad Mehta scam in 1992. A more open and effective Indian stock market is a result of SEBI's laws' development, which shows the regulator's flexibility in response to investor demands, global market trends, and technology breakthroughs.

SEBI's FUNCTION IN PREVENTING MARKET MANIPULATION AND INSIDER TRADING:

The transparency of the stock market is seriously threatened by insider trading and market manipulation. By enforcing strict laws and regulations, SEBI plays a vital role in stopping such unethical acts. The 1992 laws were superseded by the SEBI (Prohibition of Insider Trading) laws, 2015, which established more stringent guidelines to stop the improper use of unpublished price-sensitive information (UPSI). According to the regulations, insiders are

people who have access to UPSI and are not allowed to trade securities using such knowledge. SEBI requires businesses to have an organized digital database of insiders and reveal the trading activities of key staff in order to increase transparency. Another area of concern is market manipulation, which includes pump-and-dump scams, price fixing, and circular trading. Through its regulatory actions and surveillance systems, SEBI fights these practices. For example, SEBI's Integrated Market Surveillance System (IMSS) keeps a close eye on suspicious activity and odd trading patterns in the stock market. A number of well-known incidents, like the Ketan Parekh scam, have brought attention to how crucial SEBI is to upholding fair market standards. In order to ensure increased investor trust and stock market integrity, SEBI has drastically decreased incidences of insider trading and market manipulation through enforcement actions, stiff penalties, and regulatory interventions.

CORPORATE GOVERNANCE AND DISCLOSURE NORMS REGULATORY FRAMEWORK:

Standards for disclosure and corporate governance are essential to maintaining stock market transparency. Strict rules pertaining to corporate governance procedures, board composition, and financial disclosures are outlined in SEBI's Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015. Companies are required by the LODR requirements to promptly and transparently publish financial results, related-party transactions, and material events. In order to safeguard investors and stop false financial reporting, these standards are in line with international best practices. The Corporate Governance Code, which was also implemented by SEBI, mandates that businesses have independent directors, distinct positions for the chairman and CEO, and audit committees to monitor financial transparency. Corporate governance was further reinforced by SEBI's implementation of the Kotak Committee's recommendations, which increased disclosure requirements and

improved board independence. Increased investor trust and fewer cases of corporate fraud are clear results of these policies. If there had been stronger corporate governance standards in place, firms that committed financial falsification, like Satyam, would have been discovered sooner. SEBI makes sure businesses follow strict corporate governance guidelines through frequent revisions and aggressive enforcement, which improves investor confidence and market transparency.

THE EFFICIENCY OF SEBI'S ENFORCEMENT AND SURVEILLANCE:

The integrity of the market depends on SEBI's enforcement and surveillance systems. To keep an eye on trade trends and spot anomalies, the regulator uses sophisticated technology-driven surveillance systems including the Integrated Market Surveillance System (IMSS) and the Data Warehousing and Business Intelligence System (DWBIS). Among SEBI's enforcement measures include warnings, fines, and the filing of lawsuits against offenders. The regulator has taken strong action against a number of organizations, including corporations that fail to disclose material information and brokers that engage in unfair trade practices. The Sahara case, in which the regulator ordered investors to return ₹24,000 crores for creating unlawful financial instruments, was one of SEBI's historic enforcement cases. In a similar vein, SEBI has taken action against middlemen and stock exchanges for their failure to uphold market transparency.

The emergence of algorithmic trading, cryptocurrency-related scams, and global money laundering schemes are some of the issues that still exist despite SEBI's efforts. SEBI has improved coordination with organizations such as the Reserve Bank of India (RBI) and the Enforcement Directorate (ED) in order to address these problems. The stock market is now much more transparent overall because to SEBI's monitoring and enforcement systems, but ongoing adjustment is needed to handle new financial risks.

SEBI REGULATIONS AFFECT RETAIL AND FOREIGN INSTITUTIONAL INVESTORS (FIIs):

Retail and foreign institutional investors (FIIs) are directly impacted by SEBI's regulatory structure, which also affects stock market stability and investment trends. While making sure that regular investors are shielded from market volatility, SEBI has implemented a number of measures to draw in FIIs. The Foreign Portfolio Investor (FPI) Regulations, 2019 were issued by SEBI for FIIs, streamlining registration procedures and enhancing transparency in international investments. These rules guarantee adherence to anti-money laundering standards and aid in the prevention of illegal financial flows. India is becoming one of the most alluring emerging markets in the world due to the accessibility of investing in Indian markets, which has increased FII participation. SEBI's stringent disclosure guidelines, investor protection policies, and grievance procedures are advantageous to retail investors. Investors impacted by broker defaults are guaranteed compensation through SEBI's Investor Protection Fund (IPF). Additionally, initial public offerings (IPOs) are now safer and more transparent for retail investors thanks to the introduction of ASBA (Applications Supported by Blocked Amounts). The dominance of institutional investors and market volatility, however, continue to be issues. In order to combine encouraging investments with protecting investors from systemic risks, SEBI is improving its laws. Overall, SEBI's rules have had a good effect, encouraging participation and trust from both domestic and foreign investors, which has helped to make the Indian stock market more open and effective.

CHALLENGES AND CRITICISMS:

Despite SEBI's efforts and measures, challenges and criticisms remain regarding the effectiveness of its approach to preventing market manipulation. Some of these challenges include:

- **Implementation Delays:** One challenge faced by SEBI is the potential delay in

implementing and enforcing regulations. The regulatory process can be time-consuming, and there may be delays in updating rules or responding to emerging issues. Timely implementation of measures is crucial for addressing market manipulation effectively and maintaining investor confidence.

- **Complexity of Cases:** Investigating and prosecuting market manipulation cases can be complex and resource-intensive. Manipulative practices often involve sophisticated schemes and require detailed analysis of trading activities, financial records, and communications. The complexity of such cases can pose challenges for SEBI in terms of both time and resources.
- **Technological Advancements:** Rapid advancements in technology and trading techniques can outpace regulatory measures. Market manipulation can involve the use of sophisticated algorithms and high-frequency trading strategies that may not be adequately addressed by existing regulations. SEBI needs to continuously update its surveillance systems and regulatory framework to keep pace with technological changes.

CONCLUSION

In order to preserve investor confidence and advance an equitable and effective securities market in India, the Securities and Exchange Board of India (SEBI) plays a critical role in guaranteeing stock market transparency. As a strong regulator over the years, SEBI has put strict safeguards in place to stop market manipulation, insider trading, and corporate governance violations. The financial markets are now much more transparent and accountable thanks to regulatory frameworks like the SEBI (Prohibition of Insider Trading) Regulations, 2015, Listing Obligations and Disclosure Requirements (LODR), 2015, and Foreign Portfolio Investor (FPI) Regulations, 2019.

Fraud has been identified and stopped thanks to SEBI's proactive approach to enforcement and surveillance. Market oversight has been reinforced by the regulator's technologically advanced monitoring systems, such as the Data Warehousing and Business Intelligence System (DWBIS) and the Integrated Market Surveillance System (IMSS). The Harshad Mehta and Sahara cases are two notable enforcement efforts against financial scams that demonstrate SEBI's dedication to upholding market integrity. There are still issues even if SEBI's rules have promoted retail investor involvement and foreign institutional investment (FII). Risks include algorithmic trading, scams involving cryptocurrencies, and changes in the world economy. Furthermore, it is still imperative that investor complaints be resolved more quickly, transparency standards be strictly enforced, and investor education be improved. All things considered, SEBI's regulatory actions have greatly improved India's stock market openness. To maintain market trust and growth, however, constant adjustment to new financial trends and international best practices is necessary.

SUGGESTIONS

1. Improving Technical Capabilities in Market Surveillance:

To identify fraudulent activity in real time, such as insider trading patterns and high-frequency trading (HFT) abuses, SEBI should invest in AI-powered surveillance systems.

2. Tougher Enforcement of Disclosure and Corporate Governance Norms:

By stiffening independent auditing procedures and levying harsher fines for non-compliance, SEBI must make sure that businesses abide by LODR requirements.

3. Initiatives for Investor Education and Awareness:

To increase knowledge of investing methods, market dangers, and grievance redressal procedures, SEBI should launch national investor education initiatives.

4. Regulating Algorithmic and High-Frequency Trading (HFT):

To avoid flash crashes and

unjust advantages for institutional investors, the regulator should put risk-mitigation procedures in place for algorithmic trading.

5. Improving Coordination with International authorities:

In order to stop money laundering and illegal financial flows, SEBI should improve coordination with international financial authorities in light of the growing number of foreign investors and cross-border market operations.

6. Increasing Dispute Resolution Speed and Efficiency:

To avoid protracted litigation and maintain investor trust, SEBI should establish fast-track tribunals to settle investor complaints and market disputes quickly.

7. Regulating Emerging Financial Markets (Cryptocurrencies & Digital Assets):

To ensure market stability, SEBI should cooperate with the Ministry of Finance and the Reserve Bank of India (RBI) to provide a clear regulatory framework for investments in cryptocurrencies and digital assets.

By putting these recommendations into practice, SEBI can further improve financial market efficiency, investor protection, and market openness, solidifying India's standing as a top international investment destination.

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