

# Securities Markets Code 2025



# Consolidation of the three statutes

The Code proposes repeal and consolidation of:

## **Securities Contracts (Regulation) Act, 1956 (SCRA)**

Regulated securities contracts and  
stock exchanges

## **Securities and Exchange Board of India Act, 1992 (SEBI Act)**

Established SEBI and its regulatory and  
enforcement powers

## **Depositories Act, 1996**

Introduced dematerialisation and  
depository framework

These statutes operated **in parallel**, & not as an integrated framework

# Securities Contracts (Regulation) Act, 1956 (SCRA)

- Enacted in post-Independence India to establish foundational framework for securities market regulation during a period of state-building and economic restructuring with an to regulate trading in securities contracts and bring order to unregulated stock markets.

## Primary Scope:

- Regulation of securities contracts & trading
- Recognition and regulation of stock exchanges
- Governance of market operations and trading practices
- Prevention of fraudulent and unfair trading practices

## Key Limitations by 2025

- The Act was primarily designed to regulate *contracts in securities & recognition of stock exchanges*, not the broader securities market ecosystem.
- SCRA did not independently address newer instruments and market developments
- Regulation of exchanges under SCRA operated separately from intermediaries and depositories governed under other statutes.
- Investor protection mechanisms were not central to the Act

# Securities and Exchange Board of India Act, 1992 (SEBI Act)

- Enacted following the 1992 Securities Scam & the Harshad Mehta affair as a response to widespread market manipulation and investor losses representing a shift toward professional regulation of securities markets.
- SEBI initially constituted as an administrative body in 1988, then statutorily established in 1992

## Primary Scope:

- Establishment of SEBI as the central regulator of securities markets
- Conferral of regulatory, investigative, and enforcement powers
- Registration and oversight of market intermediaries and institutions
- Market development and investor protection functions

## Key Limitations by 2025:

- Focused on establishing SEBI and conferring powers, not integrating the full market framework.
- Core processes (inspection, investigation, adjudication, settlement) evolved through delegated legislation.
- Principles such as proportionality, separation of functions and due process were not fully codified in the Act.

# Depositories Act, 1996

- Enacted to enable dematerialization of securities and modernize settlement systems, while introducing electronic trading and the need for secure, efficient settlement. It represented India's adoption of global depository practices Facilitated transition from physical certificates to electronic holdings

## Primary Scope:

- Establishment and regulation of depository institutions
- Dematerialization and rematerialization of securities
- Rights and obligations of depositories and participants
- Depository system governance and settlement mechanisms

## Key Limitations by 2025:

- Primarily addressed dematerialisation and settlement, not broader market conduct or enforcement.
- Relied substantially on SEBI Act and regulations for supervision and enforcement.

# Limitations of the Earlier Framework

Key systemic issues under the three-Act regime:

## **Fragmented statutory design**

→ interpretational ambiguity

## **Regulatory arbitrage**

→ similar conduct regulated differently under different laws

## **Enforcement powers**

→ Dispersed

## **single source of reference for market participants**

→ Absent

# WHAT IS THE SECURITIES MARKETS CODE, 2025?

## A Single, Unified Law for India's Capital Markets

- Consolidates multiple securities laws into one Code
- Introduced in Lok Sabha (not yet enacted)
- Aims to modernise, simplify and future-proof regulation

## Why it matters

- Less fragmentation
- More certainty
- Faster enforcement
- Stronger investor protection

*SMC is the "GST moment" for securities law.*



# KEY DIFFERENCES



## Validity of Interim Orders

- Interim orders issued by SEBI are valid for a maximum period of 180 days
- Addresses earlier criticism of **open-ended interim restraints**



## Decriminalisation of Penalties

- Minor, technical and procedural contraventions shifted from criminal offences to civil monetary penalties
- Retains imprisonment for **serious misconduct** such as market abuse and non-compliance with regulatory orders



## Strengthening of SEBI

- Board strength increased from 9 to 15 members
- Includes 5 Whole-Time Members (WTMs)
- Enhances institutional capacity, specialisation and governance
- Certain powers earlier exercisable jointly with the Central Government are **now vested in SEBI**



## Re-introduction of Ombudsman

- SEBI empowered to designate **one or more Ombudspersons**
- Dedicated mechanism for investor grievance redressal
- Moves investor protection from regulation to **primary legislation**

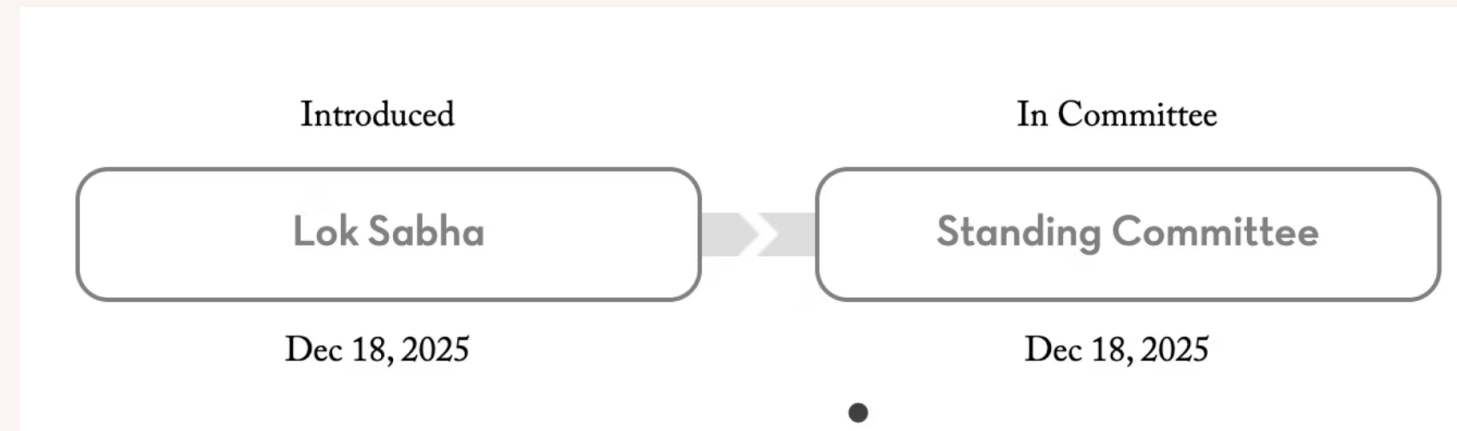
# FEATURES OF SMC, 2025

- A consolidated statutory principles-based framework.
- Structure: 18 Chapters + 4 Schedules
- Central Regulator: SEBI (Powers: Regulation, supervision, enforcement & adjudication)
- BOARD: 9 (earlier) → 15

## Scope & Applicability:

- Covers securities, intermediaries, MIs, and SROs
- Technology-neutral and instrument-agnostic (traditional, derivatives, EGRs, and future products)
- Applies to domestic and specified cross-border securities transactions

## Current Status:



# KEY DEFINITIONS

## Securities

→ Traditional + new-age instruments

## Market Infrastructure Institution

→ Exchanges, clearing corporations, depositories

## Intermediary

→ Any regulated market participant

## Investment Scheme / PIV

→ Pooled investment structures

## Market Abuse

→ Manipulation, fraud, unfair practices

## Unlawful Gain

→ Benefit from violation (to be disgorged)

# NOVELTIES

## **Institutionalisation of Self-Regulatory Organisations (SROs) (Chapter IV)**

- First-time statutory recognition of SROs
- Clear delegation of limited functions with SEBI oversight
- Promotes industry-led compliance under regulatory supervision

## **Investor Charter and Ombudsperson Framework (Chapter X)**

- Dedicated chapters on Investor Charter & Investor Grievance Redressal
- Ombudsperson mechanism embedded in law, not merely regulation
- Reinforces investor-centric governance and accountability

# CONTD.

## **Statutory Regulatory Sandbox Framework (Chapter XVII)**

- Formal statutory recognition
- Enables controlled testing of innovative products, platforms and business models
- Balances innovation facilitation with investor protection

## **Statutory Status to National Institute of Securities Markets (NISM) (Chapter XVII)**

- NISM granted explicit statutory recognition
- Anchors capacity building, certification, training & research
- Strengthens regulatory professionalism & market skill development

## KEY AUTHORITIES & THEIR FUNCTIONS

### **Board (SEBI)**

Policy, regulation, oversight

### **Investigating Officer**

To carry time-bound, evidence-based inspection and investigation into suspected violations SMC.

### **Adjudicating Officer**

Adjudication, order & Penalties

### **Recovery Officer**

Recovery of amounts

### **SAT**

Appeals

### **Supreme Court**

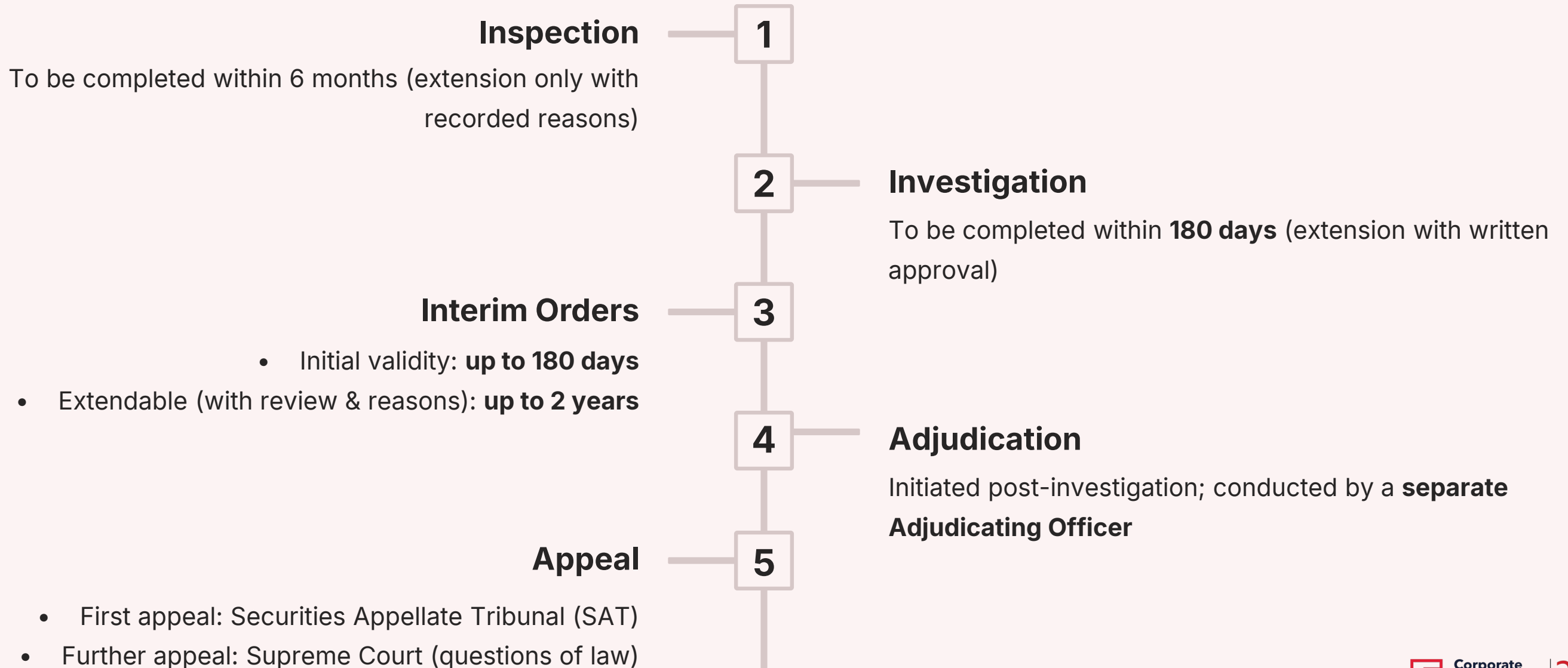
Appeals

### **SROs**

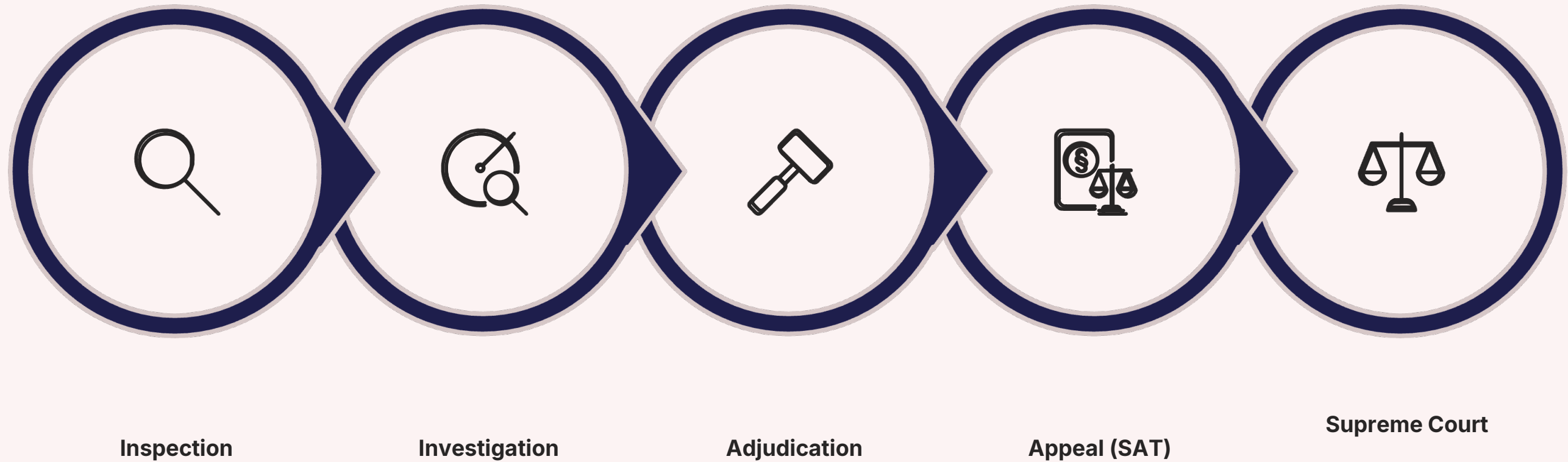
Supervision

Clear separation of roles = built-in checks & balances

# Time-Bound Enforcement Timelines



# REGULATORY ARCHITECTURE



*Clear process, fewer surprises*



# CHANGES FOR INVESTORS

- **Enhanced Investor Protection:** Investor protection applies across securities, intermediaries, MIs and new-age instruments
- **Time-Bound Enforcement → Faster Relief:** Specified timelines for completion of Inspection & Investigation
- **Statutory Restitution & Disgorgement:** Explicit power to order disgorgement of unlawful gains enables investor restitution.
- **Market Abuse Explicitly Defined:** Covers insider trading, fraud, misuse of non-public information and price manipulation
- **Investor Charter & Ombudsperson:** Statutory recognition of investor rights & Dedicated grievance redressal and dispute resolution mechanism
- **Procedural Safeguards & Appeals:** Right to hearing, reasoned orders and appeal to SAT, Enhances fairness & trust

□ *The Code moves investor protection from regulatory policy to statutory right—backed by timelines, restitution and enforceable remedies*

# PENALTY & ENFORCEMENT

## **Suspension / Cancellation**

(Sec 20 r.w 29)

## **Directions**

(Sec 23)

## **Cease & Desist**

(Sec 24)

## **Disgorgement**

(Sec 25)

## **Monetary penalties**

## **Recovery through Recovery Officer**

*Focus shifts from punishment to correction & restitution.*



# CONTD.

- Under the three-Act regime, violations could attract **imprisonment, fine, or both**, in addition to monetary penalties.
- The SMC, 2025 decriminalises routine and technical violations, replacing criminal punishment with monetary penalties for specified defaults, including:
  - Failure to obtain registration
  - Furnishing false statements
  - Failure to maintain records
  - Certain service-provider defaults
- **Imprisonment is retained** for serious and wilful misconduct, specifically:
  - Non-compliance with orders of adjudicating or investigating authorities
  - **Market abuse**, including insider trading, fraud, misuse of non-public information, and price manipulation

□ *The Code shifts enforcement from criminalisation to proportionate civil penalties, while preserving criminal sanctions for serious market misconduct and defiance of regulatory authority.*

# The Securities Markets Code, 2025 is not merely a consolidation exercise

*—it is a forward-looking governance upgrade that aligns regulation, enforcement and market development under a clear, credible and future-ready legal framework.*