FROM LEGACY LAWS TO A UNIFIED CODE: MAJOR PROVISIONS OF THE SECURITIES MARKETS CODE, 2025

Abstract

The Securities Markets Code, 2025 represents a comprehensive overhaul of India's securities regulatory framework by consolidating multiple fragmented legislations into a single, unified code. The Code seeks to enhance regulatory clarity, enforcement efficiency, and investor protection while aligning Indian securities law with global best practices. It redefines the powers and governance structure of the Securities and Exchange Board of India, introduces a streamlined mechanism for inspection, investigation, adjudication, and settlement, and expands the scope of market abuse regulation. This article delves into clauses of code to highlight how it significantly emphasizes on strengthening oversight of intermediaries and market infrastructure institutions, mandating dematerialisation, and establishing statutory investor grievance redressal mechanisms. Overall, the Code aims to promote transparency, market integrity, and sustainable growth of India's securities markets.

CMA Pankaj Kapoor
Assistant Professor
School of Commerce, SVKM's NMIMS
Chandigarh
pankajkapoor.ca@gmail.com

Introduction and Rationale of the Securities Markets Code, 2025

The Securities Markets Code, 2025 (SMC, 2025) marks a major legislative reform in India's securities regulatory framework. Prior to this Code, securities markets were governed by a fragmented set of laws, primarily the SEBI Act, 1992, the Securities Contracts (Regulation) Act, 1956 (SCRA), the Depositories Act, 1996, and a large number of rules, regulations, circulars, and guidelines issued over time. This multiplicity led to regulatory overlaps, interpretational inconsistencies, enforcement delays, and compliance burdens.

The SMC, 2025 seeks to consolidate, amend, and modernise these laws into a single comprehensive code, thereby providing clarity, coherence, and certainty. The Code aims to promote investor protection, market integrity, efficient enforcement, and systemic stability, while also ensuring that Indian securities markets remain competitive and aligned with international standards.

Consolidation of Securities Laws into a Unified Code

One of the most transformative aspects of the SMC, 2025 is the statutory consolidation of multiple securities-related enactments. Instead of regulating different aspects of securities markets under separate laws, the Code provides a holistic legal framework covering issuance, listing, trading, settlement, holding, regulation, enforcement, and dispute resolution.

Key outcomes of consolidation include uniform definitions across securities laws, reducing ambiguity; elimination of conflicting provisions scattered across statutes; easier compliance for market participants through a single reference legislation, and greater consistency in regulatory interpretation and adjudication.

This shift from a fragmented to a unified framework is expected to significantly improve regulatory efficiency.

Expanded and Modern Definitions Reflecting Market Evolution

The Code substantially expands and modernises the definition of "securities" and related concepts. Unlike earlier laws that were largely equity and debt centric, the SMC, 2025 explicitly recognises Derivatives across securities and commodities, Hybrid and convertible instruments, Electronic Gold Receipts (EGRs), Security receipts, structured instruments, and special purpose vehicles, and Certain other regulated instruments, subject to inter-regulatory coordination.

This expansion ensures that emerging financial instruments do not remain outside regulatory oversight, thereby reducing regulatory arbitrage and protecting investors from unregulated products.

Strengthened Role, Powers, and Governance of SEBI

Under the Code, the Securities and Exchange Board of India (SEBI) continues as the apex regulator, but with clearer statutory authority and enhanced accountability.

Governance improvements have been provided in the bill such as detailed provisions on composition, appointment, tenure, and removal of Board Members, mandatory standards of integrity, expertise, and independence, clear post-tenure restrictions to prevent conflict of interest and disclosure of interests and recusal norms to improve transparency.

With respect to **functional powers,** the SEBI's regulatory mandate is explicitly widened to include regulation of intermediaries, market infrastructure institutions, and self-regulatory organisations; oversight of issuance, listing, delisting, and trading of securities; regulation of investment schemes and pooled investment vehicles; and investor education, grievance redressal, and market development.

The Code also mandates SEBI to conduct regulatory impact assessments, publish data, and periodically review its own functioning, an important shift towards accountable regulation.

Robust Inspection and Investigation Framework

The SMC, 2025 introduces a time-bound and legally robust investigation mechanism, addressing criticism of prolonged and open-ended investigations under earlier laws.

Key changes include:

a. Statutory power to conduct **inspection and investigation** based on reasonable grounds.
b. Investigations to be completed within **180 days**, subject to recorded extensions.
c. Express authority to **quantify unlawful gains and investor losses**.
d. Provision for **search and seizure**, subject to authorisation by Special Courts.
e. An **eight-year limitation period** for initiating inspection or investigation, except where systemic risk or continuing contraventions exist.

These provisions balance regulatory effectiveness with safeguards against arbitrary action.

Separation of Investigation and Adjudication

A major reform introduced by the Code is the strict separation between investigation and adjudication. Persons involved in inspection or investigation are disqualified from acting as adjudicating officers in the same matter.

This change strengthens principles of natural justice, enhances credibility of enforcement proceedings, and reduces allegations of bias and pre-determined outcomes.

The adjudication process is now governed by clear procedural safeguards, including show-cause notices, opportunity of hearing, reasoned orders, and proportional penalties.

Adjudication, Penalties, and Proportional Enforcement

The Code introduces a structured and proportionate enforcement philosophy. Adjudicating officers must consider factors such as nature and seriousness of contravention; whether the conduct was deliberate, reckless, or negligent; duration and frequency of default, unlawful gains or investor losses; market-wide impact and past conduct of the notice.

Penalties are rationalised to ensure deterrence without excessive punishment, replacing the earlier regime where penalties were often inconsistent or perceived as arbitrary.

Disgorgement, Restitution, and Settlement Mechanism

The SMC, 2025 provides a strong statutory basis for disgorgement of unlawful gains and restitution to affected investors. This marks a shift from purely punitive enforcement to restorative justice.

In addition, the Code introduces a comprehensive settlement framework, allowing voluntary disclosures by market participants, settlement of administrative and civil proceedings, and reduction in prolonged litigation and regulatory burden.

Settlement decisions are made transparently, based on prescribed criteria, and settlement orders attain statutory finality, improving certainty for regulated entities.

Regulation of Intermediaries, Self-Regulatory Organisations, and Market Infrastructure Institutions

The Code creates a uniform registration and regulatory framework for intermediaries, including brokers, asset managers, advisers, registrars, custodians, and credit rating agencies.

Key reforms include clear conditions for grant, suspension, cancellation, and surrender of registration; statutory oversight of self-regulatory organisations (SROs), ensuring they function in public interest, and strong governance, ownership norms, and bye-law making powers for market infrastructure institutions (MIIs) such as stock exchanges, clearing corporations, and depositories.

This improves systemic stability and reduces conflicts of interest.

Mandatory Dematerialisation and Securities Holding Framework

A landmark feature of the Code is the mandatory dematerialisation and fungibility of securities. Physical securities, which were a source of fraud, duplication, and delay, are effectively phased out.

The code strengthens the legal status of depositories and depository participants; clarifies rights of beneficial owners vis-à-vis registered owners; provides statutory recognition to pledge, hypothecation, electronic voting, and corporate actions; and extends the Bankers' Books Evidence Act to depository records, strengthening evidentiary value.

This supports digitalisation and transparency in securities markets.

Listing, Trading, Contracts, Netting, and Settlement

The SMC, 2025 provides comprehensive regulation of public issues and listing obligations; disclosure standards and continuous compliance; delisting procedures and refusal of listing, and validity and enforceability of securities contracts.

Importantly, the Code gives statutory backing to netting and settlement, ensuring that the rights of clearing corporations take precedence over other claims. This reduces settlement risk and enhances confidence in post-trade infrastructure.

Investor Protection and Grievance Redressal Mechanism

Investor protection is a central theme of the Code. New mechanisms include a statutory Investor Charter defining rights and responsibilities; time-bound investor grievance redressal systems; appointment of an independent Ombudsperson with powers similar to a civil court; and preservation of SEBI's parallel enforcement powers to ensure serious violations are not compromised.

This marks a shift from complaint-based redressal to a rights-based investor protection regime.

Special Courts, Market Abuse, and Inter-Regulatory Coordination

The Code establishes Special Courts for speedy trial of securities offences and strengthens provisions relating to fraudulent and unfair trade practices, and market manipulation and abuse.

A dedicated chapter on inter-regulatory coordination enables SEBI to cooperate with RBI, IRDAI, PFRDA, and other regulators, addressing long-standing jurisdictional overlaps and ensuring seamless regulation of hybrid instruments.

Conclusion

The Securities Markets Code, 2025 represents a comprehensive and forward-looking reform of India's securities regulation. By consolidating laws, strengthening enforcement, enhancing investor protection, improving governance, and embracing technological and financial innovation, the Code lays the foundation for a transparent, efficient, and globally competitive securities market. It replaces a fragmented legal regime with a unified, principle-based framework capable of responding to evolving market realities and systemic risks.

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