



Effectiveness of SEBI Regulations in Ensuring Market Transparency

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ABSTRACT

The Securities and Exchange Board of India (SEBI) plays a pivotal role in regulating India's capital markets and ensuring transparency, investor protection, and fair trading practices. SEBI protects the interest of investors. It may take necessary regulatory measures to maintain the rules and regulations in the securities market in India. SEBI prohibits fraudulent and unfair trade practices like violation of rules and regulations, insider trading, frauds etc. Established in 1992, SEBI has introduced a comprehensive regulatory framework aimed at minimizing information asymmetry, preventing fraudulent practices, and promoting efficient market functioning. This study evaluates the effectiveness of SEBI regulations in enhancing market transparency by examining its core functions (Regulatory, Protective and Developmental), statutory powers, and key reforms. The study also highlights technological advancements like online surveillance systems and mandatory digital disclosures that have strengthened monitoring mechanisms. Despite these achievements, SEBI faces challenges including enforcement limitations, regulatory arbitrage, market manipulation through sophisticated instruments, and the rapid evolution of financial technologies. Criticisms related to delays in adjudication and over regulation are also discussed. In this paper, an attempt has been made to analyse the effectiveness of SEBI regulations in ensuring market transparency.



Introduction

Market transparency is a fundamental pillar of a well-functioning economic system, as it ensures that all participants have access to accurate, timely, and relevant information, thereby enabling informed and rational decision-making. In India, the Securities and Exchange Board of India (SEBI) serves as the principal regulatory authority overseeing the securities market. It was established in 1992 under the SEBI Act, 1992 to regulate the securities market, protect investor interest and promote development of the capital market. Its oversight ensures transparency, fairness and efficiency in trading activities involving securities such as shares, bonds, derivatives. It prohibits fraudulent and unfair trade practices of the securities market. It has the authority to inspect the working of the stock exchanges. It can suspend the trading of security in stock exchanges to prevent illegal activities. SEBI promotes investors' education and training of intermediaries of the securities market. SEBI prohibits insider trading in securities.

Prior to the establishment of SEBI, the regulation of India's securities market was fragmented, with multiple authorities overseeing different aspects of the system. This leads to lack of coordination and uniformity in regulation, which makes the market vulnerable to manipulation and fraud. During the 1970s and 1980s, The Indian stock market experienced several irregularities, including unofficial private placements, insider trading, non-adherence to provisions of the companies Act, market manipulation, violation of rules, manipulation of prices, and delay in delivery of shares, etc. In response to these systematic issues, SEBI was established to strengthen regulatory oversight, enhance market discipline, and restore investor confidence.

This chapter critically examines SEBI's role in ensuring transparency by analyzing its functions, powers, reforms, and challenges.

Literature Review

Gupta and Biswas (2006) analyze the development and efficiency of the Indian capital market in the post-liberalization era. Their study highlights that the reform process has accelerated the growth of the Indian stock market at a pace rarely witnessed in the economic history of any nation. However, despite this remarkable expansion, the market continues to be affected by excessive speculation and pronounced price volatility, often more intense than that observed in many comparable markets. Such inherent weaknesses undermine the fundamental objective of financial liberalization, which is to enable the financial system to efficiently mobilize and allocate resources for the benefit of society.



KVSN Jawahar Babu and S Damodar Naidu (2012), in their study title “Investor Protection Measures by SEBI”, found that investor education initiatives undertaken by the Securities and Exchange Board of India have yielded moderately positive outcomes. However, the authors emphasize that substantially greater efforts are still required in practice. They also observe a gradual decline in the participation of Indian investors in the stock market, underscoring the urgent need for the regulatory authority to design and effectively implement robust measures aimed at safeguarding the interests of small investors and rebuilding their confidence in the market.

Keerthavasan and Arya (2018) observe that the Securities and Exchange Board of India plays a crucial role in establishing and enforcing corporate governance norms. The regulatory body formulates guidelines aimed at safeguarding the rights and interests of both issuers and investors. It is vested with investigative authority to identify violations of prescribed rules and regulations and is empowered to initiate appropriate action against entities that fail to comply with governance standards. Through the implementation of various regulatory measures, SEBI significantly contributes to strengthening corporate governance and protecting investor interests.

Umamaheswararao G (2015) observed that the Securities and Exchange Board of India provides financial assistance for the organization of various investor education programmes. The study further notes that SEBI has mandated mutual funds to disclose the complete portfolio of each scheme, thereby enhancing transparency. Additionally, SEBI has directed mutual funds to maintain proper documentation supporting their investment decisions, including details such as the timing and rationale behind such decisions. Furthermore, mutual funds are required to obtain registration with SEBI, which is granted only upon compliance with the prescribed rules and regulations.

Functions of SEBI

SEBI performs multiple functions to ensure transparency and fairness in the securities market. These functions can be broadly categorized into Regulatory, Protective, and Developmental roles.

1. **Regulatory Functions:** These functions are performed by SEBI to regulate the business in the stock exchange. To regulate the activities of stock exchange following activities are performed:
 - i) SEBI formulates comprehensive rules, regulations, and a code of conduct to govern the activities of market intermediaries such as merchant bankers, brokers, underwriters, and other participants associated with the securities market.



- ii) These intermediaries are brought within SEBI's regulatory framework, thereby ensuring greater accountability and transparency. Furthermore, practices such as private placements have been subjected to stricter regulations to prevent misuse and enhance investor protection.
 - iii) SEBI is responsible for the registration and regulation of various market participants, including stockbrokers, sub-brokers, share transfer agents, trustees, merchant bankers, and all entities associated with stock exchanges in any capacity.
2. **Protective Functions:** The protective functions of SEBI are aimed at safeguarding investors' interests and ensuring the security of their investments:
- i) **Prevention of Price Rigging:** SEBI monitors and prevents the artificial manipulation of security prices intended to inflate or depress market values.
 - ii) **Prohibition of Insider Trading:** SEBI prohibits the use of unpublished, price-sensitive information by insiders to gain unfair advantages in securities trading.
 - iii) **Prevention of Fraudulent Practices:** SEBI restricts companies from issuing misleading statements that may influence investors' decisions to buy or sell securities.
3. **Developmental Functions:** The developmental functions of SEBI focus on promoting the growth and efficiency of the securities market:
- i) **Training of Intermediaries:** SEBI promotes the professional development and training of market intermediaries.
 - ii) **Promotion of Market Activities:** SEBI encourages the expansion of stock market operations through a flexible and adaptive regulatory approach, including:
 - a) Permitting internet-based trading through registered brokers.
 - b) Making underwriting optional to reduce the cost of capital issues.
 - c) Allowing initial public offerings (IPOs) to be conducted through stock exchanges.

Powers of SEBI

The Securities and Exchange Board of India (SEBI) is vested with extensive statutory powers to ensure the effective regulation and orderly development of the securities market. These powers are broadly classified as quasi-judicial, quasi-executive, and quasi-legislative in nature.

1. **Quasi- judicial:** SEBI possesses the authority to adjudicate disputes and pass reasoned orders in cases involving fraud, insider trading, and other unethical practices in the securities market. This function enhances transparency, accountability, and fairness within the regulatory framework.



2. **Quasi-executive Powers:** SEBI is empowered to conduct investigations, inspect books of accounts, and examine relevant documents of market participants to detect violations of securities laws. Upon establishing non-compliance, SEBI may initiate enforcement actions, including imposing penalties, issuing directions, and undertaking legal proceedings against the concerned entities.
3. **Quasi-legislative Powers:** SEBI has the authority to frame rules, regulations, and guidelines to safeguard investor interests and ensure market discipline. These regulatory measures encompass areas such as listing obligations, disclosure requirements, and the prohibition of insider trading, thereby contributing to the prevention of market malpractices.

Furthermore, SEBI's powers are subject to judicial oversight by the Supreme Court of India and the Securities Appellate Tribunal, which serve as appellate authorities reviewing its decisions and ensuring adherence to principles of natural justice. The enactment of the Securities Laws (Amendment) Act, 2014 significantly enhanced SEBI's regulatory ambit by empowering it to oversee collective investment and money pooling schemes involving funds of ₹100 crore or more. Additionally, SEBI has been granted the authority to attach assets and take stringent action in cases of non-compliance, thereby strengthening its enforcement capabilities.

Securities and Exchange Board of India Reforms

SEBI has introduced several reforms to enhance transparency and accountability in the market.

1. **Electronic trading system:** One of the most significant reforms is the implementation of electronic trading systems, which reduce the scope for manipulation and increase efficiency.
2. **Strengthened Disclosure requirement:** Another major reform is the introduction of stringent disclosure requirements under the Listing Obligations and Disclosure Requirements (LODR) regulations. These rules mandate timely reporting of financial results, corporate actions, and material events.
3. **Improve Corporate Governance Norms:** SEBI has also strengthened corporate governance norms by requiring independent directors, audit committees, and transparent decision-making processes. Insider trading regulations have been tightened to prevent misuse of confidential information.
4. **Use of Technology and Surveillance System:** Technological advancements such as real-time surveillance systems and data analytics have further improved SEBI's ability to detect irregularities.
5. **SEBI's Investor Protection Initiatives:** SEBI has introduced a number of measures to protect investor's interest, including setting up an Investor Protection Fund to Compensate Investors for losses incurred due to fraudulent practices.



These reforms collectively contribute to a more transparent and accountable market environment.

Challenges and Criticisms

Despite its achievements, SEBI faces several challenges in ensuring market transparency.

- 1. Complexity of Financial Instruments:** One major issue is the complexity of modern financial instruments, which makes regulation and monitoring more difficult.
- 2. Enforcement Delays and Regulatory Overlap:** Enforcement delays are another concern. Investigations and legal proceedings often take considerable time, reducing the deterrent effect of penalties. Additionally, regulatory overlaps with other authorities can lead to inefficiencies and confusion.
- 3. Stringent Regulations and Compliance Burden:** Critics also argue that SEBI's regulations may sometimes be overly stringent, increasing compliance costs for businesses.
- 4. Lack of Investor Awareness:** Limited investor awareness further reduces the effectiveness of transparency measures, as many investors may not fully understand disclosed information.
- 5. Technological and Cyber security Challenges:** Technological challenges, including cyber security risks and the rapid evolution of digital trading platforms, also pose significant hurdles. SEBI must continuously adapt to these changes to remain effective.

Conclusion

The Securities and Exchange Board of India has played a pivotal role in strengthening market transparency through a comprehensive regulatory framework, effective enforcement mechanisms, and continuous institutional reforms. Its initiatives have significantly enhanced investor confidence and ensured fair market practices. Nevertheless, persistent challenges such as delays in enforcement, rapid technological advancements, and limited investor awareness- continue to constrain its overall effectiveness. To address these concerns, SEBI must adopt a forward-looking and adaptive regulatory approach, ensuring that its policies remain responsive to evolving market dynamics, emerging financial innovations, and the growing complexities of a modern, technology-driven securities market environment.

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