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The Securities and Exchange Board of India: A Comprehensive Study on Its Evolution, Issues, and Strategic Responses

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ABSTRACT

This study offers an in-depth exploration of the Securities and Exchange Board of India (SEBI), tracing its evolution from a non-statutory body in 1988 to a statutory regulatory authority in 1992. The paper examines SEBI's foundational objectives—investor protection, market development, and regulation—and how they have adapted to meet the challenges of a rapidly evolving financial ecosystem. It highlights the transformation of India's securities market from a fragmented, paper-based system plagued by scams and manipulation to a modern, digitized, and transparent platform. However, the study also sheds light on prevailing concerns such as unregulated trading apps, fraudulent platforms, market manipulation, and cyber risks. Particular focus is placed on the lack of investor awareness, misuse of leverage, and the proliferation of Ponzi schemes disguised as investment platforms. The paper critically evaluates SEBI's strategic countermeasures, including regulatory reforms, investor education initiatives, technological integration, and surveillance mechanisms. It underscores the importance of stringent licensing, transparent operations, and legal enforcement to protect retail investors. Conclusively, the paper asserts that while SEBI has significantly strengthened market integrity, ongoing vigilance and adaptive regulation are vital in an era of increasing digital finance and complex investment products.

Keywords: SEBI, Indian securities market, investor protection, trading apps, financial regulation.

I. INTRODUCTION

In India, the securities market or stock market, is regulated and governed by an apex body called Securities and exchange board of India. This regulatory body governs whole securities market of India. The SEBI (Securities and exchange board of India) was originally founded as a regulatory authority for the Indian securities market on April 12, 1992, by the **SEBI Act 1992**. Essentially a statutory body of the Indian Government introduced to promote transparency in Indian investment market. SEBI (Securities and Exchange board of India has

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its head Office situated at Mumbai and it has four regional offices in Ahmedabad , Kolkata, Chennai, and Delhi. The shares that bought and sold should by recognized by SEBI or else any other shares or securities bought or sold without the recognition of SEBI are ought to be void and invalid. The securities and exchange board of India (SEBI) provides guidelines for investors and promote awareness about the risk that is involved in securities market. Basically, SEBI is a statutory body which regulates the overall securities or stock market in India. The main functions of SEBI are to;

- Protect the interests of investors
- Promotes the development of the securities market
- Regulates the securities market.

With the developing technology and growth of awareness about the trading market many people tend to involve in securities market while this advantages and promotes the efficiency of securities market but it's also comes with arising issues like fraud and cybers issues in trade practice. Due to lack of awareness involved in securities market many cyber criminals or fraudsters tend to use this lack of awareness for their own benefit.

The SEBI does not specifically recognize individual trading apps but regulates and approves the stockbrokers and platform offering trade services. The apps that are linked to these registered brokers and are authorized by SEBI are compliant with the regulations.

In this article we are going to look into history of SEBI, its objectives and mainly those trading platforms which is not recognized by SEBI and yet allowed to take part in securities market, how those platforms uses the people's lack of awareness for their won benefit and about the measures taken by SEBI to tackle and solve the problems prevailing the Indian securities market.

II. SECURITIES MARKET OF INDIA: AN HISTORICAL OVERVIEW

The Indian securities market is an ever changing that is dynamic and financial ecosystem, facilitating the buying and selling of financial instruments such as bonds, stocks, and derivatives. Over time, it has transformed into globally recognized and regulated market, ensuring investor protection and market efficiency.

A. Pre-SEBI Era (before 1988)

Before the establishment of SEBI, India's securities market was essentially fragment, kind of unregulated and mostly lacked comprehensive oversight.

- **No Central Authority:**

India had several smaller fragmented regional exchanges without proper rules and framework., there was no single central regulatory body to manage and oversee stock exchange and securities market in India.

- **Lack of Enforcement:**

Regulations and rules were either non-existent or poorly enforced. That can lead to manipulation and fraud due to market operation with minimal oversight.

- **Stock Exchange and Market Practices;**

Dominance of BSE (Bombay Stock Exchange) and CSE (Calcutta Stock Exchange) were the main stock exchanges, but then also existed smaller exchanges like Ahmedabad and Madras, these operated independently, contributing to a fragment market.

Manual, Paper-Based System: The trading process was manual, with transactions often taking days or even weeks to settle. The infrastructure was outdated, which resulted in errors, delays, and a lack of efficiency.

Transparency Issues: There was little transparency in terms of stock prices, volumes, or corporate disclosures, leading to a system ripe for manipulation.

- **Stock Market Scams and Manipulation**

Frequent Market Manipulation: Manipulation was rampant, with wealthy stockbrokers and influential market players controlling stock prices through fraudulent practices.

The 1992 Harshad Mehta Scam: This infamous scam, which involved a stockbroker artificially inflating stock prices using forged bank receipts, marked a significant turning point in India's market history. It exposed the severe lack of regulation and investor protection, highlighting the urgent need for a dedicated body to monitor the markets.

- **Investor Protection and Confidence**

Weak Investor Protection: There was no effective mechanism for investor protection. Investors had little recourse in the case of fraud or manipulation, leading to widespread distrust.

Low Investor Confidence: Given the rampant manipulation, scams, and a lack of transparency, investor confidence was extremely low. Retail investor participation was limited, and many stayed away from the markets.

- **Government Control and Limited Market Development**

Government-Influenced Markets: Before the 1991 economic reforms, India's economic model was heavily state-controlled, which extended to the securities markets. Private participation in financial markets was limited.

Underdeveloped Financial Products: There was a lack of diversification in financial products, with limited options beyond equities. The debt and derivatives markets were almost nonexistence

B. Post-SEBI Era (After 1988)

- **Establishment of SEBI (1988):**

Creation of SEBI: The Securities and Exchange Board of India (SEBI) was established in 1988 as a non-statutory body under the Ministry of Finance. However, it had no formal regulatory powers at the time. It was created in response to growing concerns about market manipulation, the need for investor protection, and the increasing complexity of financial markets.

Statutory Recognition (1992): SEBI was granted statutory powers in 1992 through the SEBI Act. This transformation empowered it to regulate the securities market, ensure fairness, and protect investors' interests.

- **Regulatory Reforms and Modernization:**

Regulation of Stock Exchanges: SEBI began taking steps to regulate and modernize the functioning of stock exchanges. This included overseeing stock market practices, ensuring that exchanges operated transparently, and introducing new trading mechanisms.

Dematerialization of Shares: One of the landmark reforms was the dematerialization of shares in the 1990s, which led to the creation of the National Securities Depository Limited (NSDL) in 1996. This made trading more secure, efficient, and less prone to fraud.

Introduction of Modern Trading Practices: SEBI also worked on moving trading from manual to electronic platforms, which drastically improved efficiency and transparency.

- **Curbing Fraud and Manipulation**

Tackling Market Manipulation: SEBI implemented strict measures to detect and prevent market manipulation, insider trading, and fraudulent activities. It introduced surveillance mechanisms and investigated instances of market fraud.

Stronger Legal Framework: A robust legal framework was established, with SEBI given the

authority to take action against market manipulators and fraudsters. Penalties, investigations, and regulatory actions became more common.

- **Growth of Financial Markets:**

Development of Capital Markets: With SEBI's oversight, India's capital markets began to grow rapidly. Stock market infrastructure improved, and the focus shifted to investor-centric policies, which helped foster market stability.

Introduction of New Financial Products: SEBI played a critical role in the development of new market products, such as mutual funds, derivative markets, and corporate bonds, diversifying the financial options available to investors.

Institutional Investors: The regulatory reforms also paved the way for greater institutional participation, including the growth of mutual funds and foreign institutional investments (FIIs), which significantly contributed to the development of the securities market.

- **Enhanced Investor Protection and Market Transparency:**

Investor Education and Awareness: SEBI undertook initiatives to increase investor awareness about the functioning of the markets, rights, and risks involved. This included setting up programs to educate the public about investing in the securities market.

Stronger Corporate Governance: Corporate governance standards were strengthened, and companies were required to disclose more information about their operations, making the market more transparent for investors.

Investor Protection Mechanisms: SEBI introduced measures like the Investor Protection Fund (IPF) and investor grievance redressal systems to ensure that investors had a mechanism to recover losses and voice concerns.

- **Technological Advancements:**

Electronic Trading and Online Platforms: SEBI drove the adoption of electronic trading platforms, which made the process faster, more efficient, and less prone to errors. This development was part of a broader trend toward digitizing India's financial markets.

E-KYC and Digital Integration: The use of technology was expanded with the introduction of e-KYC (Know Your Customer) systems, making it easier for investors to open accounts and trade in the securities market.

- **Global Integration**

Global Standards and Foreign Investments: As the Indian market grew, SEBI introduced

reforms that aligned with global best practices, making it more attractive to international investors. India's securities market became more integrated with the global financial system.

III. KEY OBJECTIVES OF SEBI

The Securities and Exchange Board of India (SEBI) was established in 1988 as the regulatory body for the securities markets in India, with the aim of promoting and regulating the securities market to protect the interests of investors. Over the years, SEBI's role has expanded to ensure the development and regulation of the securities market in India. The detailed objectives of SEBI are as follows:

1. Investor Protection:

- One of SEBI's primary objectives is to protect the interests of investors in the securities markets.
- This involves ensuring that investors are not misled by fraudulent activities, market manipulation, or unethical practices.
- SEBI works to make sure investors are provided with accurate, adequate, and timely information to make informed decisions.

2. Regulating and Promoting the Securities Market:

- SEBI strives to create and maintain a transparent, efficient, and fair securities market.
- It formulates and enforces rules and regulations to control market intermediaries like brokers, merchant bankers, and mutual funds, and ensures their adherence to those rules.
- SEBI ensures that there is no misuse of market power, manipulation, or unfair practices in the market.

3. Preventing Malpractices and Fraud:

- SEBI works to prevent insider trading, market manipulation, and other unethical trading practices.
- It has the authority to investigate and take action against entities that violate the rules of fair play in the securities markets.
- The regulator also ensures compliance with securities laws and corporate governance norms by listed companies.

4. Development of the Securities Market:

- SEBI aims to promote the growth of the Indian securities markets by introducing measures that improve their infrastructure, efficiency, and stability.
- It helps in encouraging new players and institutions to enter the market and ensures the healthy expansion of market instruments such as stocks, bonds, and derivatives.

5. Regulation of Market Intermediaries:

- SEBI has the responsibility of regulating entities like stock brokers, underwriters, portfolio managers, and other intermediaries to ensure that they operate fairly and transparently.
- SEBI ensures these market participants adhere to a code of conduct, financial reporting standards, and provide proper disclosures.

6. Standardizing and Promoting Corporate Governance:

- SEBI works to promote better corporate governance practices within listed companies.
- It has implemented regulations that require companies to disclose their financial performance, operations, and related-party transactions to ensure accountability and transparency.

7. Monitoring and Regulating Mutual Funds and Collective Investment Schemes:

- SEBI has established regulations for mutual funds to ensure that they operate in a transparent and efficient manner.
- It works to ensure that investors' money is managed safely and that the mutual fund industry grows in a healthy manner.

8. Facilitating Efficient and Transparent Trading:

- SEBI regulates the functioning of stock exchanges and other trading platforms, ensuring that transactions are executed in a transparent, efficient, and timely manner.
- It encourages the use of technology in trading systems to enhance market efficiency, reduce manual interventions, and ensure investor confidence.

9. Fostering Fair and Transparent Disclosure:

- One of the key roles of SEBI is to ensure that there is adequate and timely disclosure of material information by companies to investors.

- This helps investors make informed decisions based on accurate and up-to-date information.

10. Managing Systemic Risk in Financial Markets:

- SEBI aims to maintain stability in the Indian financial markets by identifying and managing systemic risks.
- It works with other regulatory bodies like the Reserve Bank of India (RBI) and the Ministry of Finance to ensure that market disruptions, such as those caused by market volatility or financial crises, are minimized.

The above are some key objectives and goals of SEBI for their conduct of Indian securities market.

IV. ISSUES THAT PREVAIL IN INDIAN SECURITY MARKET

The Indian securities market, while growing and evolving, faces several challenges that impact its efficiency, investor trust, and overall development. Some of the key issues prevailing in the market, including concerns about trading apps and scams, are as follows:

1. Market Manipulation:

- **Issue:** Despite regulations, market manipulation continues to be a significant issue. Practices such as “pump and dump” (artificially inflating the price of stocks to sell them at a higher price) and “insider trading” (trading based on confidential, non-public information) remain prevalent in the Indian securities market.
- **Impact:** This leads to unfair price movements, misleads investors, and undermines market integrity.

2. Lack of Investor Awareness and Education:

- **Issue:** Many retail investors in India lack adequate financial literacy, making them vulnerable to poor investment decisions, market scams, and unregulated financial products.
- **Impact:** This lack of awareness leads to high-risk investments, often resulting in financial losses, particularly in unregulated or speculative market instruments.

3. Fraudulent Trading Apps and Ponzi Schemes:

- **Issue:** There has been a rise in fraudulent trading platforms and apps that lure investors with promises of high returns with little to no risk. These apps often operate

as Ponzi schemes, where funds from new investors are used to pay returns to older investors, giving the illusion of profit.

- **Examples:** Apps like “Zebpay” and “CoinDCX” (though not scams themselves) have been cited in reports alongside other unregulated apps as potentially dangerous, especially when they offer unverified or unlicensed services.
- **Impact:** Investors lose their money due to fraudulent practices, and the reputation of legitimate trading apps and platforms gets tarnished.

4. Lack of Effective Regulation of New Trading Platforms:

- **Issue:** The increasing number of new and low-cost trading apps has made the market more accessible but also riskier, as some of these apps are not regulated properly.
- **Examples:** Several new trading apps are operating without full compliance with SEBI’s regulations or lack proper disclosure, transparency, and risk management systems.
- **Impact:** Investors using these platforms may fall victim to fraud or mishandle their investments due to lack of proper guidance, investor protection mechanisms, and adequate safety features.

5. Cybersecurity and Data Privacy Concerns:

- **Issue:** With the growing popularity of online trading apps, there is a surge in cyber threats, including data breaches, hacking attempts, and unauthorized access to personal and financial information of investors.
- **Impact:** This compromises investors’ privacy and puts them at risk of identity theft, financial fraud, and loss of funds. Several apps have been reported to be vulnerable to such attacks.

6. Excessive Leverage and Margin Trading:

- **Issue:** Trading apps, especially those offering options and margin trading, often provide high leverage. While this can amplify profits, it also exposes investors to substantial risks if the market moves against their position.
- **Impact:** Retail investors, particularly those who are new to trading, can end up incurring significant losses or even be trapped in a cycle of debt due to aggressive margin trading.

7. Unregulated Crypto Trading Platforms:

- **Issue:** While the Indian government has been discussing regulations for cryptocurrency markets, many unregulated platforms still allow individuals to trade in cryptos, often with limited oversight.
- **Impact:** Investors can face risks such as market volatility, lack of recourse in case of fraud, and scams involving cryptocurrencies. Unregulated platforms are often less secure and may be prone to fraudulent activities.

8. Scams and Misleading Advertisements:

- **Issue:** Some trading apps or platforms make unrealistic promises of guaranteed returns, often through misleading advertisements or marketing tactics. These platforms usually operate on the fringes of legality.
- **Impact:** Unsuspecting investors, particularly inexperienced ones, are attracted to these platforms and lose money when the promised returns do not materialize.

9. Ponzi (PYRAMID) Schemes and Fake Investment Products:

- **Issue:** Fraudulent entities often use fake investment products like “too good to be true” mutual funds or stocks, and Ponzi schemes often get incorporated into trading apps.
- **Impact:** These scams promise quick returns and exploit unregulated or less-regulated financial products to trick investors into parting with their money. The fraudulent nature of such schemes becomes apparent only when investors try to withdraw their money, resulting in financial loss.

10. Rising Cases of Fake Brokers and Unregistered Entities:

- **Issue:** Many individuals, particularly inexperienced investors, fall prey to fake brokers who claim to offer investment services. These brokers operate without any regulatory oversight and typically promise high returns.
- **Impact:** Investors lose money and can have no recourse for their grievances. Regulatory bodies like SEBI have been working to crack down on such unregistered entities.

V. THE COUNTER MEASURES

To prevent scams and frauds that may occur against securities and trading apps, the Securities and Exchange Board of India (SEBI) has implemented various measures with a focus on maintaining the safety, security, and transparency of the securities market. These measures are

designed to protect investors, and manage other participants in the market, while also protecting the legality and ethics of trading apps. Some of the notable measures that have been taken by SEBI include:

1. Enhanced Measures for Regulation of Market Intermediaries:

- **Licensing of Brokers and Platforms:** All stockbrokers, trading apps, and other market intermediaries are required to be registered with SEBI and are expected to follow the regulatory framework. SEBI also ensures that platforms and apps providing trading services have the requisite licenses and confirm to its rules.
- **Registered Entities Only:** Only SEBI registered platforms and entities are allowed to offer any trading services. This is to ensure that there is regulatory protection for the investors and that there are established legal structures for any complaints to be resolved.
- **Example:** Every app that provides facilities for the trading in securities such as shares, bonds, etc. must be registered with a broker that is accredited by SEBI.

2. Keeping Track and Watching Over Market Activities:

- **Continuous Research:** SEBI oversees and investigates the activities in the market and the trading operations to locate any unusual or fraudulent behavior. This includes monitoring price capers, insider brokers, and unauthorized financial schemes.
- **Alerts on Fraudulent Transactions:** SEBI investigates certain dubious transactions as it is on broadcast surveillance or fishing apps. Unusual trades on certain platforms are flagged for deeper scrutiny as potential scams.

3. Amending Advertising and Marketing Practices with Increased Strain:

- **Advertisements that Are False and Deceptive:** Like all authorities vested with control over advertising, SEBI has developed advertising codes that restrict trading platforms and apps from using certain types of advertising that can deceive the public. Every advertising platform that claims certainty of certain profits or unfounded accounts is penalized.
- **Restrictions on Marketing:** Platforms must ensure that their advertising and marketing material is not misleading and guarantees high promises of exaggerated returns or no risk trading are considered as fraud.

- Example: “High return with low risks” schemes aggravates SEBI’S ire and slew of action is taken against those platforms that undertake such terms to induce customer interest.

4. Investor Awareness and Education

- Investor Protection Initiatives: The regulator runs investor educational programs on intra and inter market malpractices to apprise them about the fraudulent schemes operating in the securities market. It also informs them about trading platforms that are safe and reliable from time to time.
- Public Warnings and Advisories: SEBI’s public notice helps identify fraudulent apps, schemes, or other trading platforms that are based outside india and are non SEBI registered so that such scams are not perpetrated against unwary investors.
- Investor Helplines: SEBI has a helpdesk through which investors can register their complaints or find out information about whether a particular platform is SEBI approved or not.

5. Regulation of Mobile and Online Trading Apps

- Security Standards for Trading Apps: SEBI has such provisions for the trading apps where personal details of the investors and even sensitive financial information is well protected with robust cyber security. The apps must follow the prescribed protocols regarding data security and user verification.
- Regular Audits: SEBI has been advocating the periodic testing of trading apps for exploiting vulnerabilities, bugs, and other compliance breaches and through regular compliance audits of security standards.

6. Encouraging Transparency In Operations

- Mandatory Disclosures by Trading Platforms: Other rules obligate the trading platforms to provide information about fees, commission, the accompanying risks like market volatility and financial position of the users.

7. Managing Undocumented Platforms:

- Inhibition of Unregulated Trading Applications: Trading applications that operate without any registered licenses from SEBI are considered illegal. Such activities will be subjected to penalties and legal consequences. Investors have been warned to not use undocumeted platforms at First Informer.

- Cooperation With Law Enforcement: SEBI collaborates with law enforcement to track down fraudulent trading applications that illegally circulate in the market.

8. More Effective Investor's Grievance Remedial Strategies:

- SEBI Complaints Redress System (SCORES): An investor can file a complaint against trading apps and intermediaries on SCORES. This platform makes it easy for investors to file questions or grievances and makes it tough for them to go unanswered.
- Dispute Resolution Framework: If a broker or a platform does not address the grievance, SEBI assures that measures will be taken to address the issues raised to the platform.

9. Regulation of Unregulated Investments and Cryptocurrencies:

- Crypto Trading Apps: While SEBI does not directly regulate cryptocurrency exchanges, it closely monitors crypto trading apps to make sure that investors are not taken advantage of by fraudulent schemes that pass for cryptocurrency investments.
- Investor Protection: SEBI has issued a warning against unregulated investments and platforms that provide trading connected to cryptocurrencies without the required legal framework.

10. Strict Action Against Ponzi Schemes and Fraudulent Schemes:

- SEBI has taken stringent measures against fraudulent investment schemes, including Ponzi schemes, that use trading apps or unlicensed platforms
- Prosecution and Investigations: To look into fraudulent practices, SEBI works with other organizations such as the Ministry of Finance and the Reserve Bank of India (RBI) to investigate fraudulent activities and prosecute the individuals or entities behind these scams.

VI. CONCLUSION

To combat scams and frauds related to trading apps in India, SEBI has put in place a wide range of safeguards. SEBI strives to safeguard investors and uphold market integrity by making sure that only platforms registered with the agency are active, imposing stringent rules on market intermediaries, and keeping an eye on market activity. It offers a grievance resolution system (SCORES) for complaints and encourages investor education and transparency through KYC standards. In order to combat deceptive promises, SEBI also controls advertising tactics and prosecutes unregistered platforms and Ponzi schemes. By

taking these actions, SEBI hopes to provide a transparent and safe trading environment that protects investors from dishonest practices in the expanding trading app market.
