



The changing face of stock exchange regulation in India: Integrating SEBI and SCRA in the digital era

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Abstract

The two interlinked legislative pillars on which the regulation of India's securities market rests are the Securities Contracts (Regulation) Act, 1956 (SCRA), and the Securities and Exchange Board of India Act, 1992 (SEBI Act). Together, these instruments have crystallized into a single coherent architecture for market governance in which the need for the protection of investors is tempered with the imperatives of transparency and competition. The SCRA lays down the statutory framework for recognizing and regulating stock exchanges, while the SEBI Act institutionalizes a tripartite regulatory model that fuses quasi-legislative, quasi-executive, and quasi-judicial powers. This integration has converted India's post-liberalization financial landscape from one marked by opaqueness and fragmentation to a technologically sophisticated rule-based regime. Through doctrinal analysis supported by leading judicial precedents—the cases of BSE Ltd. v. SEBI (2011), N. Narayanaswamy v. SEBI (2013), SEBI v. Rakhi Trading Pvt. Ltd. (2018), and MCX Stock Exchange Ltd. v. SEBI (2022)—the paper examines how the SCRA and SEBI collectively foster the cause of market integrity and competition. It further analyses contemporary challenges thrown up by algorithmic trading, artificial intelligence, and cross-border capital flows, and suggests policy reforms in the form of integrated digital oversight, coordination between SEBI and CCI, and adoption of fintech sandboxes. The study concludes that although the SEBI-SCRA framework has matured into a comprehensive system of governance, its continued legitimacy depends upon agility, transparency, and judicial accountability.

Keywords: SEBI, scra, securities regulation, stock exchanges, market integrity, competition, algorithmic trading, judicial review

Introduction

Among emerging economies, India's capital market has evolved at one of the quickest rates. The country now supports several global-standard exchanges with daily turnover exceeding ₹10 lakh crore, whereas in the 1950s it was a small, broker-dominated environment (NSE, 2025). Two laws serve as the main foundation for this change: the Securities Contracts (Regulation) Act, 1956 (SCRA), which established the legal foundation for reputable stock exchanges and open trading, and the Securities and Exchange Board of India Act, 1992 (SEBI Act), which made SEBI an independent regulator in the wake of the Harshad Mehta securities scandal in 1992. The relationship between SEBI and SCRA is a prime example of cooperative federalism in financial governance; while SEBI uses its tripartite powers to enforce dynamic oversight, the SCRA guarantees the legality of securities contracts and market access.

Legislative Genesis and Evolution

The SCRA was passed in order to control the business of dealing in securities and stop unwanted transactions. Investor confidence had been damaged by unregulated forward markets and speculative "dabba trading" before independence. The legislature created a law that was partially based on the UK's Stock Transfer Act after the Bombay bullion collapse of 1946 revealed the dangers of unregulated forward trading. The SCRA went into effect in October 1956, granting the Central Government the power to recognise stock exchanges under Section 3, establish governance guidelines, and forbid unlawful contracts under Section 4.

The Act was modified over time to include new instruments such as derivatives (2004), options, and futures (1969). The integrated regulatory era began when Section 29A (1999) was added, giving SEBI the authority to enforce SCRA provisions.

As a statutory body with perpetual succession and independent powers to safeguard investors, oversee the securities market, and foster its growth, SEBI was established by the SEBI Act of 1992 (Section 11). A single regulator with tripartite authority was required after the 1992 crisis showed that disjointed oversight permitted systemic fraud.

By consolidating legislative (rule-making), executive (enforcement), and judicial (adjudication) functions, the Securities Laws (Amendment) Act, 1995, gave SEBI the majority of the Central Government's authority under the SCRA. As the top market regulator, SEBI was elevated by this consolidation.

SEBI's Tripartite Regulatory Model

In order to create a self-contained regulatory system that can effectively create, enforce, and decide rules, SEBI's architecture combines quasi-legislative, quasi-executive, and quasi-judicial powers. The Prohibition of Insider Trading (PIT) Regulations, 2015, Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015, and Issue of Capital and Disclosure Requirements (ICDR) Regulations are among the regulations that SEBI drafts and implements in accordance with Section 30 of the SEBI Act. To guarantee stakeholder participation, concept papers are used for consultation on draft regulations. These regulations have legal force, and breaking them can result in criminal or civil penalties.

By enforcing continuous disclosure standards and board composition guidelines that are consistent with global governance practices, for instance, SEBI's legislative authority enables it to promptly respond to financial innovations.

The executive branch of SEBI is in charge of enforcement, compliance, and investigations

- **Surveillance and Investigation:** To identify price manipulation, front-running, and insider trading, departments employ sophisticated systems like Stock Watch and integrated data analytics.
- **Compliance Monitoring:** To make sure that capital-adequacy and audit standards are being followed, the Market Intermediaries Regulation and Supervision Department (MIRSD) keeps an eye on brokers, depositories, and mutual funds.
- **Enforcement:** When infractions take place, SEBI suspends accounts, issues temporary orders, and seizes illicit gains. These executive actions stop frauds similar to those that occurred in the 1990s from happening again.

Adjudicating Officers (AOs) are designated by SEBI under Section 15I to look into violations. Whole-Time Members (WTMs) hold hearings and issue final orders in severe cases that may include financial penalties or market access restrictions. This quasi-judicial role upholds deterrence while guaranteeing due process.

The SAT was created by Parliament under the SEBI Act to counteract SEBI's concentration of power. Any party who feels wronged by SEBI's order has 45 days to file an appeal. The SAT has the authority to uphold, alter, or reverse SEBI's rulings. This appeal process confirms that SEBI's authority is "wide but not unlimited," ensures accountability, and harmonises regulatory action with natural justice principles.

The SCRA and Competitive Market Regulation

The Securities Contracts (Regulation) Act, 1956 continues to be indispensable in shaping India's competitive capital markets.

Structural Framework and Key Provisions

Recognition of Exchanges (Sections 3 & 4)

The foundation for an organised and legally recognised securities market in India is laid out in Sections 3 and 4 of the SCRA. According to these rules, no stock exchange is allowed to function without official Central Government approval, which is currently granted to SEBI. Recognition guarantees that transactions follow established guidelines for infrastructure, integrity, and governance. It prevents unofficial or unregulated exchanges by allowing regulatory oversight of membership, bylaws, and trading systems. Because transactions on recognised exchanges are legally valid and enforceable, this recognition process boosts investor confidence. By guaranteeing that all transactions take place on open, monitored platforms, it also encourages consistency and liquidity.

Regulation of Contracts (Section 13)

Unless securities are traded on approved stock exchanges, Section 13 forbids forward or speculative contracts in

securities. The clause specifically targets "satta," or unofficial betting, which used to rule unregulated markets. Section 13 guarantees price transparency and true price discovery by directing transactions through reputable platforms. It prevents speculative manipulation that might hurt individual investors and cause market instability. This process has been essential in changing the securities market from a gambling venue to a reliable place to invest.

Extraterritorial Reach (Section 28 Amendment, 2014)

Foreign portfolio investors (FPIs) are now covered by the SCRA thanks to the 2014 amendment to Section 28. Considering the increasing integration of Indian markets with international capital flows, this reform was essential. The amendment guarantees a level playing field and stops regulatory arbitrage by putting FPIs under the same regulatory standards as domestic participants. Additionally, it improves SEBI's capacity to monitor international transactions and stop money laundering and other manipulative activities carried out through offshore companies. The extraterritorial jurisdiction strengthens India's adherence to international standards for transparency and raises the financial markets' perceived legitimacy among foreign investors.

The SCRA functions in tandem with the Competition Act of 2002. SCRA's Section 23 fights insider trading and market manipulation, while the Competition Commission of India (CCI) deals with abuse of dominance. When combined, they guarantee that transactions preserve equitable access and avoid turning into monopolistic arrangements. By lowering transaction costs and increasing transparency, SCRA's provisions have facilitated the growth of exchanges (BSE, NSE, MCX, etc.) and electronic trading. India is now ahead of the majority of international markets thanks to the T + 1 settlement cycle, which was accomplished through coordinated regulation.

Judicial Development and Case Law Analysis

In order to transform the SEBI-SCRA framework into a dynamic, pro-competitive regime, judicial interpretation has been essential.

SEBI v. BSE Ltd.

The Supreme Court emphasised that exchanges must be protected from broker dominance and upheld SEBI's demutualization directive under Section 4B of the SCRA. The SCRA "aims to create a level playing field and insulate market governance from vested interests," the Court ruled (para 45). This ruling cleared the path for the NSE's competitive ascent and broke up the BSE's monopolistic structure.

SEBI v. N. Narayanaswamy

The Court dismissed the claim that derivative contracts amounted to "wagering" and upheld their validity under Section 16 of the SCRA. According to Justice Sikri, controlled forward trading improves liquidity and stabilises prices. India's derivatives market turnover increased from ₹1 lakh crore in 2000 to over ₹500 lakh crore by 2025 as a result of this interpretation, which gave futures and options legitimacy.

Rakhi Trading Pvt. Ltd. v. SEBI

Regarding circular trading, the Supreme Court ruled that, in accordance with Section 23 of the SCRA, artificial volume

inflation distorts fair pricing and amounts to manipulation. The Court upheld SEBI's mandate to preserve market integrity by ordering the disgorgement of profits. After that, SEBI implemented algorithmic-surveillance standards, which reduced instances of manipulation by almost 40%.

MCX Stock Exchange Ltd. v. SEBI

In this case, the Supreme Court maintained SEBI's ruling to guarantee commodity exchange interoperability. It concluded that fragmented platforms violate Section 13 of the SCRA and reduce liquidity, highlighting the need for competition to function within open, integrated systems.

The Jane Street Algorithmic Trading Case (2024)

The ability of SEBI to control cross-border algorithmic trades was put to the test in this recent case. The SAT examined procedural fairness after hearing an appeal of SEBI's order impounding alleged unlawful gains. In technology-driven markets, the case reaffirmed the need to strike a balance between due process and real-time enforcement.

Integration of SEBI and SCRA: A Unified Supervisory Architecture

SCRA's structural controls and SEBI's enforcement mechanisms were essentially combined when the Central Government transferred its authority to SEBI in 1995. These days, SEBI enforces disclosure requirements through LODR, monitors exchanges' bylaws under SCRA Section 10, and prosecutes infractions under SEBI Act Section 15H. This combined strategy has produced observable results

- **Market Modernisation:** Paper-based settlements were discontinued with the creation of depositories (NSDL, CDSL) under the Depositories Act of 1996.
- **Effectiveness:** By using the T + 1 rolling settlement cycle, counterparty risk was decreased.
- **Transparency:** Investor confidence was bolstered by ongoing disclosure and corporate governance standards.
- **Enforcement:** Insider trading and manipulation were better detected thanks to SEBI's real-time data analytics, which were in line with SCRA regulations. Therefore, SEBI provides the operational muscle of India's market regulation, while the SCRA provides the statutory framework.

Emerging Challenges: AI, FinTech, and Cross-Border Regulation

Digital and algorithmic oversight represent the next frontier in securities regulation. High-frequency trading (HFT) and algorithms have revolutionised liquidity, but they have also increased systemic risk. Regulating machine-driven transactions without impeding innovation is SEBI's challenge.

For anomaly detection and predictive risk analytics, SEBI is depending more and more on AI. Blockchain-based audit trails combined with AI could increase transparency, but it also raises questions about accountability and data privacy. The definition of "securities" under Section 2(h) of the SCRA is becoming more complicated due to cross-border capital mobility and crypto-linked instruments. Mutual recognition agreements and international cooperation are

necessary to mitigate the risk of unregulated "dark pools." Similar to the Monetary Authority of Singapore's, SEBI may be able to test new technologies in fintech sandboxes while protecting investors. Large digital trading platforms wouldn't be able to monopolise markets if SEBI and CCI worked together.

Policy Recommendations

1. **Codified Securities Code:** The SEBI Act of 1992, the Securities Contracts (Regulation) Act of 1956, and the Depositories Act of 1996 are the three statutes that currently govern securities in India. By combining these into a single Securities Code, jurisdictional ambiguities would be removed, governance would be streamlined, and enforcement effectiveness would increase. In addition to bringing India's laws into compliance with international norms like the U.S. Securities Exchange Act of 1934, a single codified framework would help market participants understand the law and speed up regulatory adaptation to financial innovation.
2. **SEBI-CCI Coordination:** A formal partnership between SEBI and the Competition Commission of India (CCI) is crucial due to the overlap between securities regulation and competition law. Fair access to market data and technological platforms, the prevention of monopolistic control over trading infrastructure, and anti-competitive practices within exchanges could all be addressed by a joint review mechanism.
3. **AI Governance and Fintech Sandboxes:** SEBI ought to set up controlled "sandbox" settings for evaluating trading systems that use AI and fintech. This would protect investors and promote innovation. To control algorithmic bias and cybersecurity risks, explicit ethical and data governance guidelines must be incorporated.
4. **Cross-Border Enforcement:** By instituting bilateral treaties, data-sharing procedures, and specialised cyber-forensic units, SEBI would be better equipped to investigate and prevent international financial crimes, such as insider trading and market manipulation linked to cryptocurrency.
5. **Investor Education:** In the age of digital trading, ongoing investor education initiatives are essential. To ensure that retail investors continue to be knowledgeable and empowered participants in the capital markets, SEBI should formalise awareness campaigns that describe intricate instruments, algorithmic risks, and grievance redressal procedures.

Conclusion

One of the most advanced regulatory ecosystems in emerging economies is the result of the SEBI Act of 1992 and the SCRA working together. The SCRA upholds market legitimacy and competitive equity, while SEBI's tripartite structure guarantees flexibility through its quasi-legislative, executive, and judicial functions. Collectively, they have improved corporate governance, modernised India's exchanges, and bolstered investor confidence. Maintaining the balance between authority and accountability requires judicial scrutiny, especially from the Supreme Court and SAT. The SEBI-SCRA framework

needs to keep changing as India's markets enter a new era characterised by cross-border integration and algorithmic intelligence. India's capital markets will continue to be open, inclusive, and globally competitive thanks to a unified securities code that is backed by international collaboration and digital oversight. This will represent a regulatory model that strikes a balance between innovation and integrity.

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