Legislative Brief

The Securities Markets Code, 2025

The Securities Markets Code, 2025 was introduced in Lok Sabha on December 18, 2025.

The Code has been referred to the Standing Committee on Finance (Chair: Mr. Bhartruhari Mahtab).

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Highlights of the Bill

- The Securities Markets Code, 2025 seeks to consolidate the Securities Contracts (Regulation) Act, 1956, the Securities and Exchange Board of India (SEBI) Act, 1992, and the Depositories Act, 1996 into a single law.
- The Code retains SEBI as the regulator, and the Securities Appellate Tribunal (SAT) to hear appeals against SEBI.
- Currently, SEBI comprises nine members including Chairperson, three ex-officio members, and five other members appointed by the central government. The Code increases the number of other members to 11.
- The Chairperson, whole-time members, and officers may be designated as investigating and adjudicating officers.
- The Code designates exchanges, clearing corporations, and depositories as market infrastructure institutions (MIIs). It empowers them to make bye-laws with prior approval of SEBI. MIIs may take actions against contravention of bye-laws such as levying penalty, cancelling trades, and awarding compensation.

Key Issues and Analysis

- Certain provisions may affect independence of SEBI. For instance, the central government has powers to terminate the services of members and the Chairperson at its own discretion. The Code separately provides for their removal upon grounds such as conflict of interest; however, independent inquiry is not required.
- The Code specifies orders that may be appealed before SAT. It leaves out certain actions such as refusal of registration and certain cease-and-desist orders. In contrast, the SEBI Act, 1992 allows appeals to SAT against all orders.
- The Code provides for separation of adjudication and investigation functions on a case level. The Financial Sector Legislative Reforms Commission (2013) had instead recommended separation through a distinct cadre for adjudication, in line with the principle of separation of powers.
- Adjudicating officers and MIIs have powers to suspend or cancel transactions. Such actions may lead to wider market uncertainty, and adversely affect confidence in markets.
- The Code empowers the central government to exempt public sector undertakings from adhering to SEBI Regulations on governance and disclosures. Risks faced by public investors may not differ substantially between public and private sector entities. This raises the question whether such powers are appropriate.

PART A: HIGHLIGHTS OF THE BILL

Context

Securities include financial instruments such as shares (ownership stake in a firm), bonds (issued for raising debt), and derivatives (contracts deriving value from underlying assets). These are often traded in markets (e.g. stock exchanges). Securities markets enable firms to raise capital from the wider public. Trading of securities enables price discovery and gives investors flexibility to enter and exit. A trade on an exchange also involves two other institutions. A clearing corporation guarantees settlement of trades, and a depository holds securities in electronic form and maintains transaction records. There are several other intermediaries such as: (i) brokers who execute trades on behalf of clients, (ii) investment advisers who help investors make informed decisions, (iii) asset management companies that trade in securities using money pooled from investors (e.g. mutual funds), and (iv) merchant bankers who manage issuance of securities and conduct due diligence.

Issuers of securities, insiders, and intermediaries typically have more information than investors. This creates scope for manipulation and misconduct, and may reduce trust in these markets. Failure of securities markets may also impact the wider financial system. To address these concerns, securities markets and entities operating in them are regulated. In India, securities markets are primarily regulated by the following three laws: (i) the Securities Contracts (Regulation) Act, 1956, (ii) the Securities and Exchange Board of India (SEBI) Act, 1992, and (iii) the Depositories Act, 1996. The 1956 Act regulates dealings in securities and operation of stock exchanges. The 1992 Act establishes: (i) SEBI as the regulator to protect interests of investors in securities and promote and regulate the securities market, and (ii) the Securities Appellate Tribunal to hear appeals against decisions of SEBI. The 1996 Act regulates depositories.

In 2013, the Financial Sector Legislative Reforms Commission (Chair: Justice B. N. Srikrishna) observed that a regulator that is independent of the government: (i) improves legal certainty by ensuring that the regulatory approach does not fluctuate with political changes, and (ii) allows development of a specialised workforce with superior technical knowledge to conduct regulation.[1]

The Securities Markets Code, 2025 was introduced in Lok Sabha to consolidate the three Acts into a single law. The Statement of Objects and Reasons to the Code noted that existing laws were enacted decades ago. Hence, a review was required to align with evolving regulatory practices, developments in technology, and the changing character of securities markets. The Code has been referred to the Departmentally Related Standing Committee on Finance (Chair: Mr. Bhartruhari Mahtab).

Key Features

The Securities Markets Code, 2025 seeks to consolidate the following three Acts into a single law: (i) the Securities Contracts (Regulation) Act, 1956, (ii) the Securities and Exchange Board of India (SEBI) Act, 1992, and (iii) the Depositories Act, 1996. It retains several provisions. SEBI and the Securities Appellate Tribunal (SAT) have been retained. Key changes include**:**

- **Composition of SEBI:** Currently, SEBI consists of nine members: (i) the Chairperson, (ii) two officials from the Ministries of Finance and Corporate Affairs, (iii) one official of RBI, and (iv) five other members appointed by the central government of whom at least three must be whole-time members. The Code increases the number of such other members to 11. Of these, at least five must be whole-time members.
- **Conflict of interest of a Board Member:** Under the SEBI Act, a member of SEBI who is a director of a company must disclose certain interests. This covers any direct or indirect pecuniary interest in a matter. He must not take part in deliberations or decisions on such matters. The Code expands this restriction to all members with any direct or indirect interest (specified under Regulations). This includes interests of any family member. It also adds a new ground of removal of Board members. This applies where a member has acquired any financial or other interests likely to prejudice his functions.
- **Investigation and adjudication:** Currently, SEBI may designate any person as an investigating officer. It may designate an officer of the rank of Division Chief or above as an adjudicating officer. The Code instead empowers SEBI to designate these officers from among its Chairperson, whole-time members, and officers (Division Chief or above for adjudicating officers). A person cannot be the adjudicating officer for a case if he has: (i) authorised or conducted the inspection or investigation, (ii) decided to appoint the adjudicating officer, (iii) considered a settlement application, or (iv) passed an interim order, in that case. The Code bars SEBI from ordering any inspection or investigation after eight years from the date of contravention. Currently, there is no such limit. This limit will not apply to cases with a systemic impact on the securities market, and cases referred by investigating agencies.

- **Intermediaries and MIIs:** The Code retains registration requirements for various entities. Intermediaries such as stock brokers, asset management companies, and investment advisers must register with SEBI to carry on investment activity or business. It also requires market infrastructure institutions (MIIs) to register with SEBI. MIIs include stock exchanges, clearing corporations, and depositories. SEBI may also require specified classes of investors to register. It may delegate registration powers for intermediaries or investors to MIIs. MIIs may make bye-laws for regulation and control of contracts, and conduct of members and market participants, with prior approval of SEBI. MIIs may take actions against contravention of bye-laws such as levying penalty, cancelling trades, and awarding compensation.
- **Grievance redressal:** The Code empowers SEBI to establish an investor grievance redressal mechanism. SEBI may also direct service providers to constitute grievance redressal mechanisms. It also empowers SEBI to appoint an Ombudsperson to redress specified grievances.
- **Offences and penalties:** Currently, under the three Acts, contravention of the Act, Rules, or Regulations is punishable with imprisonment, fine, or both. This is in addition to penalty. The Code removes these provisions and instead provides for only monetary penalty for specified violations. These include: (i) failure to obtain registration, (ii) furnishing false statements, (iii) failure to maintain records, and (iv) certain defaults by service providers. It retains imprisonment for certain offences such as: (i) non-compliance with specified orders of adjudicating officers or directions of investigating officers, and (ii) market abuse. Market abuse includes activities such as insider trading, defrauding the investors, dealing in securities while possessing non-public information, or manipulating market prices of securities.

PART B: KEY ISSUES AND ANALYSIS

Independence of SEBI

The Code establishes the Securities and Exchange Board of India (SEBI) as the regulator of the securities markets. It provides for the appointment, removal, and terms and conditions of service of the Chairperson and other members of SEBI. We discuss certain issues with these provisions below.

Central government may terminate services of members and the Chairperson at will

Bill: Clause 5(5)

The SEBI Act, 1992 provides that the central government may terminate the services of the Chairperson or members of the Board. It may do so by giving three months' notice, or by paying salary and allowances of three months in lieu of notice. The Code retains these provisions. These provisions reduce security of tenure, which may undermine independence of SEBI. Note that the Code separately provides for removal on specified grounds. These include insolvency, unsoundness of mind, conviction for an offence involving moral turpitude, conflict of interest, or abuse of position.

Removal does not require an independent inquiry

Bill: Clause 6

The Code requires the central government to provide a member an opportunity for hearing if the member is liable to be removed on the grounds of: (i) conflict of interest, or (ii) abuse of position. Certain other laws provide additional safeguards against removal. For example, under the Electricity Act, 2003, removal on similar grounds requires an inquiry and recommendation of the Chairperson of the Appellate Tribunal for Electricity (who is a sitting or former High Court Chief Justice or Supreme Court Judge).[2] The Competition Act, 2002 requires an inquiry by the Supreme Court and its recommendation.[3] The Financial Sector Legislative Reforms Commission (FSLRC) had recommended an independent judicial process under the supervision of the Supreme Court, and public disclosure of the findings.[1]

Manner of appointment left to Rules prescribed by the central government

Bill: Clause 4(3)

The Code provides that the Chairperson and members of the Board will be appointed by the central government. The manner of appointment will be as prescribed. In contrast, certain other laws provide for a selection committee to recommend appointments. These include laws governing the Central Electricity Regulatory Commission (CERC) and the Competition Commission of India (CCI).[4] The composition of these committees is also specified in law. The Code lacks such provisions. FSLRC had observed that to enhance independence of the regulator, law must provide for a selection committee.[1] It further recommended that a majority of the committee members must not be connected to the government.

Currently, the SEBI Act, 1992 similarly empowers the central government to prescribe the manner of appointment. Rules under the 1992 Act empower a committee to recommend appointments to SEBI.[5] The Cabinet Secretary chairs this committee, and other members include: (i) Additional Principal Secretary to the

Prime Minister, (ii) Secretary, Department of Economic Affairs, (iii) three external experts nominated by the central government, and (iv) SEBI Chairperson (for selection of whole-time members).

Post-tenure cooling-off period lower than comparable laws

Bill: Clause 5(6)

The Code prohibits the Chairperson and whole-time members of the Board from accepting certain employment until one year after leaving office. This covers employment with any government or securities markets participant. Exceptions require prior approval of the central government. Such restrictions address potential conflict of interest. Several other laws establishing regulators place similar restrictions. However, in most cases, the period is two years.[6]

No opportunity of being heard prior to supersession

Bill: Clause 133

The Code empowers the central government to supersede the Board on specified grounds. These include: (i) grave emergency, where SEBI is unable to discharge its functions and duties, (ii) persistent default by SEBI in complying with directions by the central government, which results in deterioration of its financial position or administration, or (iii) public interest. However, the Code does not provide an opportunity of being heard before supersession. This is unlike several other laws such as those establishing CCI, PFRDA, and IRDAI.[7] An exception is the RBI Act, which allows supersession without an opportunity for hearing.[8]

Scope of appeals before SAT narrowed

Bill: Clauses 85, 24, 28, 37, 136

Under the SEBI Act, 1992, any person aggrieved by any order of SEBI or its adjudicating officers may appeal to SAT. The Code instead specifies the categories of orders which may be appealed before SAT. These include: (i) interim and final orders of the adjudicating officers, (ii) review orders of SEBI, (iii) orders cancelling registration, and (iv) all orders of market infrastructure institutions (MIIs) including exchanges, clearing corporations, and depositories. The Code leaves out certain orders from the purview of appeal to SAT. These include: (i) refusal of registration by SEBI to an intermediary or an MII, (ii) cease-and-desist orders pending adjudication, and (iii) proceedings by recovery officers. It is unclear why such orders should be treated differently. Persons aggrieved by such actions will have to seek recourse before High Courts by filing a writ petition under Article 226 of the Constitution.

Investigation and Adjudication

Adjudication function not structurally separate

Bill: Clauses 13(1), 17(1), 17(2), 17(3)

Under the Code, the Board may direct one or more persons to act as an investigating officer or an adjudicating officer. Such persons may be from among its Chairperson, whole-time members, or officers. A person cannot be the adjudicating officer for a case if he has: (i) authorised or conducted the inspection or investigation, (ii) decided to appoint the adjudicating officer, (iii) considered a settlement application, or (iv) passed an interim order, in that case. Hence, the separation between investigation and adjudication will be at the level of individual cases. In contrast, FSLRC had recommended separating administrative, regulatory, and adjudicatory functions within a regulator, based on the principle of separation of powers.[1] It had proposed creation of a distinct cadre of officers for adjudication. These officers would not be involved in any other functions. Review of adjudication orders would be placed before the designated members of the regulator. Under the Competition Act, 2002, the office of the Director General has been set up to dedicatedly carry out investigations, thus, separating investigation and adjudication (undertaken by the Commission).[9]

Board members acting as investigating and adjudicating officers may conflict with supervisory functions

Bill: Clauses 13(1), 13(2), 17(1), 21, 7

The Code allows the Chairperson and members of the Board to act as an investigating or adjudicating officer. This leads to situations where supervision is conducted either by the same person or a junior in rank. The question is whether this is appropriate. For example, the Board may examine the record of proceedings of an adjudicating officer. It may pass an order to enhance the quantum of penalty. Where the Chairperson or whole-time members are the adjudicating officers, they may participate in the review of their own order. Similarly, if an investigation report is not submitted on time, the investigating officer must request the concerned whole-time member for extension of time. This implies that the Chairperson as an investigating officer will seek permission from a person junior in rank. The Chairperson and members of the Board are also responsible for the general superintendence and direction and management of the affairs of SEBI. It may be argued that superintendence includes broader oversight of investigation and adjudication. The Chairperson or a member acting as an investigating or adjudicating officer will be supervising a function, they are themselves performing. Under the SEBI Act, 1992, the Board may appoint its officers of the rank of Division Chief or above as adjudicating officers.

Whether powers to suspend or cancel transactions are appropriate

Bill: Clauses 23, 41(1)

The Code empowers adjudicating officers to issue directions to securities markets service providers, market participants, or other persons associated with securities markets. The directions may be issued if necessary: (i) in the interest of investors, or orderly development of markets, (ii) to prevent affairs of service providers or market participants being conducted in a manner detrimental to the interest of investors or securities markets, or (iii) to secure proper management of such entities. These directions may include: (i) suspension of clearing of contracts by clearing corporations, and (ii) cancelling or annulling any trades or execution of contracts on stock exchanges. Similarly, the Code also empowers MIIs to annul any transactions or contracts. This may be done in case of contravention of their bye-laws. MIIs include exchanges, clearing corporations, and depositories. The Code does not provide further guidance on when such actions may be taken. Without clear safeguards, such measures could adversely affect confidence in the securities markets.

FSLRC had observed that undoing a transaction will also require reversal of all dependent transactions.[1] This will lead to wider market uncertainty. When a trade is executed, participants rely on its finality for risk management and pricing. FSLRC recommended that transactions should have finality and should not be undone under any circumstances.[1] SEBI had observed that globally, modification or cancellation is typically permitted only where: (i) a trade resulted from a technical or system error, (ii) prices are clearly erroneous, or (iii) execution threatens orderly market functioning.[10]

Whether leaving adjudication procedure to Regulations is appropriate

Bill: Clause 17(4)

The Code provides that adjudication proceedings will be conducted in the manner specified by SEBI through Regulations. This is unlike the SEBI Act, 1992, which empowers the central government to prescribe the manner of adjudication through Rules. This raises the question whether the body which conducts adjudication should frame the procedure governing it. The procedures aim to safeguard the rights of the persons subjected to adjudication proceedings. For example, currently, the Rules require recording brief reasons in the order.[11] The Code does not have such a requirement.

Minimum rank of investigating officers not specified

Bill: Clause 13(1)

Under the Code, any officer of SEBI may be designated as an investigating officer. An investigating officer exercises powers of a Civil Court under the Code of Civil Procedure, 1908, including: (i) discovery and production of books of account, (ii) summoning and examining persons on oath, (iii) inspection of records, and (iv) examination of witnesses and documents. Further, the officer may apply to a Special Court for authorisation to conduct search and seizure. In contrast, the Income-tax Act, 2025 vests comparable investigative powers in officers above a specified rank.[12] Under the PFRDA Act, 2013, search and seizure powers may be exercised by an officer of PFRDA, with the minimum rank equivalent to a gazetted officer of the central government.[13]

No outer time limit for completing investigations and adjudications

Bill: Clauses 13(2), 13(4), 20

The Code requires an investigation to be completed within 180 days. If an investigation report is not submitted within this period, the investigating officer must seek an extension. SEBI may also direct the officer to conduct further investigation and submit a supplementary report. The Code does not limit the number of extensions or the maximum time for investigation upon extensions. Further, there is no time limit for completing the supplementary investigation, or for the adjudicating officer to pass the final order.

Whether exemption to PSUs from governance norms is appropriate

Bill: Clause 65(2)

The Code empowers SEBI to make Regulations on requirements for issuers in matters such as: (i) issue of capital, (ii) minimum offer size, (iii) issue and transfer of securities, (iv) corporate governance requirements, (v) disclosures by issuers, and (vi) risk management. The Code empowers the central government to exempt listed public sector undertakings (PSUs) from any or all such requirements. This may be done in public interest. These provisions are aimed at protecting investors through disclosure and governance standards across issuers who raise money from the public. The question is whether such exemption is appropriate. The risks faced by investors may not differ substantially based on whether the issuer is government-owned or private.

Market Infrastructure Institutions (MIIs)

The Code designates exchanges, clearing corporations, and depositories as MIIs. The government may also notify other classes of institutions as MIIs.

Regulatory functions of MIIs

Bill: Clauses 39, 40, 41, 42

The Code entrusts MIIs with certain regulatory functions. The Code empowers them to make bye-laws for regulation and control of contracts and conduct of their members and market participants. Matters of bye-laws include safeguarding interests of investors, risk management, abuse prevention measures, terms and conditions for accessing any services, and listing of securities. For contravention of bye-laws, they may take actions which include: (i) imposing penalty, (ii) expulsion from membership, (iii) annulling transactions or contracts, and (iv) directing payment of compensation. Appeals against orders of MIIs lie directly before SAT. Further, SEBI may also delegate the power to register any class of intermediaries or investors to an MII. MIIs are for-profit entities. This raises the question whether a company that earns from market activity will impartially govern that activity. A measure that protects investors may reduce the MII's revenue. The Code provides certain checks. For instance, bye-laws require prior approval of SEBI. SEBI may also direct amendments to the bye-laws or make them itself. SEBI may recommend supersession of the governing board of MIIs. It may also cancel registration of MIIs in the interest of trade or public interest. Ownership norms require that members cannot collectively own more than a specified percentage of equity. Also, the board of an MII must have independent members.

Powers to supersede the governing board of MIIs different from other laws

Bill: Clause 44

The Code empowers the central government to supersede the governing board of an MII, on SEBI's recommendation. These provisions differ from other laws in the superseding authority, grounds, and duration.[14]

Table 1: Provisions for supersession of the governing board of regulated entities

Act/Bill	Authority	Grounds	Duration
Securities Markets Code, 2025	Central government, on SEBI's recommendation	Not specified	Not specified
RBI Act, 1934	RBI	Include: (i) financial stability, (ii) public interest, (iii) securing proper management of the company	Up to five years
Insurance Act, 1938	IRDAI	Carrying on business in a manner prejudicial to the interest of its policyholders	Up to one year; extendable
PFRDA Act, 2013	PFRDA	Contravention of the Act or Regulations	Not specified

Sources: See endnote 14; PRS.

Discretion with SEBI to introduce investor grievance redressal measures

Bill: Clauses 71, 72, 73

The Code provides a framework for investor grievance redressal. SEBI "may" formulate an investor charter, institute a grievance redressal mechanism, and designate an Ombudsperson. Thus, it leaves introduction of such measures at the discretion of SEBI.

1. Volume 1: Analysis and Recommendations, Report of the Financial Sector Legislative Reforms Commission, March, 2013, https://dea.gov.in/files/other_reports_documents/FSLRCReportVol1.pdf.
2. Section 90, The Electricity Act, 2003.
3. Section 11(3), The Competition Act, 2002.
4. Section 78, The Electricity Act, 2003; Section 9, The Competition Act, 2002.
5. SEBI (Terms and Conditions of Service of Chairman and Members) Rules, 1992, https://www.sebi.gov.in/legal/rules/feb-1992/sebi-terms-and-conditions-of-service-of-chairman-and-members-rules-1992_34664.html.
6. Section 89(5), The Electricity Act, 2003; Section 7, The Pension Fund Regulatory and Development Authority Act, 2013; Section 8, Insurance Regulatory and Development Authority of India Act, 1999; Section 12, The Competition Act, 2002; Section 5(8), The Telecom Regulatory Authority of India Act, 1997.
7. Section 44, The Pension Fund Regulatory and Development Authority Act, 2013; Section 19, The Insurance Regulatory and Development Authority of India Act, 1999; Section 56, The Competition Act, 2002.
8. Section 30, The Reserve Bank of India Act, 1934.
9. Section 16, The Competition Act, 2002.
10. Review of policy for trade cancellation / annulment, Securities and Exchange Board of India, https://www.sebi.gov.in/sebi_data/attachdocs/1381312419464.pdf.
11. Rule 5(3), The SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, https://bit.ly/451lWBJ.
12. Section 246, The Income-tax Act, 2025.
13. Section 17, The Pension Fund Regulatory and Development Authority Act, 2013.
14. Section 45IE, The Reserve Bank of India Act, 1934; Section 52A, The Insurance Act, 1938; Section 31, The Pension Fund Regulatory and Development Authority Act, 2013.