

Securities Market Code, 2025: Structural Reforms, Regulatory Convergence and Emerging Compliance Paradigms

In a recent knowledge sharing webinar organised by Mehta & Mehta, distinguished professionals deliberated on the proposed Securities Market Code, 2025 (SMC, 2025) and its transformative impact on India's capital market ecosystem. The discussion focused on the consolidation of multiple securities laws, enhanced regulatory powers, and the evolving compliance expectations for market participants, intermediaries, and professionals. The session highlighted that the SMC represents a paradigm shift from a fragmented regulatory framework to a unified, principle-based code aimed at improving regulatory clarity, enforcement efficiency, and investor protection. Given the increasing complexity of financial instruments, technological advancements, and cross-border transactions, the need for a consolidated and modern regulatory structure has become imperative.

Legislative Evolution and Policy Objective

India's securities market has historically been governed by multiple legislations, including the SEBI Act, 1992, the Securities Contracts (Regulation) Act, 1956, and the Depositories Act, 1996. Over time, regulatory overlaps, interpretational inconsistencies, and enforcement challenges necessitated a comprehensive overhaul. The Securities Market Code, 2025 seeks to consolidate existing securities laws into a single framework, eliminate redundancies, strengthen enforcement mechanisms, and enhance investor confidence and market integrity. The legislative intent is to create a robust, transparent, and technology-driven regulatory environment aligned with global best practices.

Expanding Scope: Redefining "Securities"

A key highlight of the Code is the expanded and inclusive definition of "securities." The scope now goes beyond traditional instruments to include hybrid instruments, convertible securities, electronic gold receipts, zero coupon zero principal instruments, and mutual fund units. This expansion reflects the evolving nature of financial products and ensures that innovative instruments do not escape regulatory oversight. The underlying principle is that substance prevails over form, and any instrument having investment characteristics and market exposure may fall within the regulatory ambit.

Regulatory Architecture: Strengthened Role of SEBI

The Securities Market Code significantly enhances the role and powers of the Securities and Exchange Board of India (SEBI), positioning it as a centralised and empowered market regulator. The Code envisages broader investigative and enforcement powers, increased authority to impose penalties and order disgorgement, greater oversight over market intermediaries, and enhanced capacity to regulate emerging financial instruments. At the same time, discussions in the webinar reflected concerns regarding the concentration of powers with SEBI and the need for institutional checks and balances to ensure regulatory accountability.

Market Infrastructure and Digital Transformation

The Code recognises the growing importance of technology in securities markets and introduces provisions relating to tokenisation of securities, electronic issuance and transfer mechanisms, strengthening of depository systems, and digital compliance frameworks. These measures aim to improve transparency, reduce settlement risks, and enhance operational efficiency. However, increased digitisation also imposes significant responsibility on intermediaries and market participants to ensure robust cybersecurity systems and effective data governance practices.

Investor Protection and Grievance Redressal

Investor protection continues to remain a cornerstone of the Securities Market Code framework. The role of SCORES (SEBI Complaints Redress System) was highlighted as an integrated platform for investor grievance redressal, enabling centralised complaint filing, tracking, and time-bound resolution. The framework seeks to enhance accountability of listed entities and intermediaries while strengthening trust in the market. Discussions also indicated the potential for further development of mechanisms such as ombudsperson frameworks to improve dispute resolution efficiency.

Applicability Beyond Listed Entities

An important aspect of the Code is its expanded regulatory reach beyond traditionally listed entities. The Securities Market Code may impact unlisted public companies accessing capital markets, private companies issuing certain categories of securities, and a wide range of market intermediaries and professionals. This broader applicability ensures that systemic risks are addressed comprehensively and that regulatory oversight is not limited only to listed companies.

Impact on Market Participants and Intermediaries

The Securities Market Code is expected to significantly influence market participants by increasing compliance obligations, enhancing disclosure requirements, and subjecting transactions to greater regulatory scrutiny. Market intermediaries will face stricter registration norms, higher governance standards, and continuous monitoring obligations. The regulatory approach under the Code reflects a shift from form-based compliance to a more substance-driven governance model.

Role of Professionals: Emerging Responsibilities

The evolving regulatory landscape places increased responsibility on professionals such as Company Secretaries, Chartered Accountants, and legal advisors. Their role extends beyond routine compliance to interpreting complex provisions, advising on structuring of financial instruments, ensuring end-to-end regulatory adherence, and proactively identifying risks. Professionals are expected to function as strategic advisors, contributing to stronger governance frameworks within organisations.

Concerns, Gaps and Implementation Challenges


While the Securities Market Code, 2025 is progressive in nature, certain concerns and implementation challenges remain. These include the possibility of regulatory overreach, ambiguity in classification of new financial instruments, challenges in implementing technology-driven provisions, and the need for clarity on cross-border transactions and jurisdictional overlaps. The effectiveness of the Code will largely depend on clear subordinate legislation, regulatory guidance, and a phased implementation approach.

Governance Imperatives and Compliance Strategy

The Code underscores the importance of integrated governance frameworks within organisations. Companies and intermediaries must establish strong internal compliance mechanisms, ensure real-time monitoring of transactions, maintain comprehensive documentation, and align their business strategies with regulatory expectations. A proactive and structured compliance approach will be critical in mitigating risks in the evolving regulatory environment.

Conclusion

The Securities Market Code, 2025 represents a landmark reform in India's financial regulatory landscape, aimed at creating a unified, transparent, and future-ready securities market framework. By consolidating laws, expanding regulatory scope, and embracing technological advancements, the Code seeks to balance investor protection, market efficiency, and innovation. As highlighted in the webinar, the key to effective compliance lies in understanding the broadened scope of securities, adapting to enhanced regulatory oversight, strengthening governance systems, and maintaining agility in a rapidly evolving market environment. The SMC, 2025 is not merely a legislative consolidation but a strategic shift towards a more resilient and globally aligned securities market ecosystem.

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