

Securities Markets Code, 2025: Building a Future Ready Regulatory Framework

The Securities Markets Code, 2025 has been conceived to streamline the regulatory framework governing the securities markets. A pragmatic framework is essential in a market that is inherently highly regulated. The Code has been presented in Parliament and referred to a Parliamentary committee for its views. In an earlier piece, I had outlined provisions that capital market participants would like to see changed in the Code. In this article, I focus on a few new measures that could be considered.

Law making is a long and intensive process, and legislation is not revisited frequently. It is therefore important that any comprehensive exercise anticipates future trends and builds a regulatory framework that can respond to them. India's capital markets are poised to become one of the top five globally. To support the growth and governance of such a large market, we need a robust Code that enables ease, speed and simplicity in transaction execution. With this context, I offer a few suggestions.

First, the proposed Code does not introduce sufficient innovation. It does not adequately provide for new instruments or new types of transactions. For instance, listing without an offering is not contemplated. At present, a company can list only by offering existing shares or issuing new ones. However, sometimes a company may not require fresh capital, and existing shareholders may not wish to sell their holdings. There should be a mechanism that allows companies to list without making an offering. This would improve governance, enhance liquidity and expand the market.

Second, there is a case for creating a trading platform for unlisted companies. Currently, securities can be traded only after a company undertakes a public offering and lists. There could be situations where a company requires limited trading access rather than full listing. A regulated platform for such trading would facilitate liquidity, enable transparent price discovery and broaden market participation. This is a practical idea that deserves consideration within the Code.

Third, electronic voting for shareholder meetings, while effective in principle, presents certain implementation challenges. In particular, the authority given to portfolio managers to cast votes on behalf of multiple investors can lead to outcomes that may not fully reflect individual shareholder preferences. The introduction of the Code presents an opportunity to review this mechanism to ensure that voting outcomes remain fair, transparent and aligned with the principles of shareholder democracy.

Another important aspect is the role of Market Infrastructure Institutions. The Code appears to continue assigning a quasi regulatory role to stock exchanges and depositories, despite their status as commercial entities. This creates multiple layers of approval, with market participants required to seek clearance from these institutions before approaching the Securities and Exchange Board of India. For greater efficiency and regulatory certainty, there should be a single regulatory authority, with these institutions focusing on operational and implementation responsibilities.

Our Views

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Finally, it is important to recognise the evolution of the Securities and Exchange Board of India, which recently marked its 38th foundation day. It is now a well established and mature regulator. The Code should formally recognise it as the sole regulator for listed companies. At present, listed companies interact with multiple authorities, including SEBI, market infrastructure institutions, the Competition Commission of India, the Ministry of Corporate Affairs and the National Company Law Tribunal in certain cases. This multiplicity often leads to delays in corporate actions such as restructuring, mergers, demergers and minority squeeze outs. Given the central role of shareholder approvals and the existing review processes, it would be efficient to vest final approval for such matters with SEBI alone.

Designing a forward looking Securities Markets Code that reflects the needs of the next phase of growth in India's capital markets is a timely and necessary objective. The effort should go beyond present requirements and build a framework that is ready for the next stage of evolution.

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