

INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS



Open Access, Refereed Journal Multi-Disciplinary
Peer Reviewed

www.ijlra.com

DISCLAIMER

No part of this publication may be reproduced or copied in any form by any means without prior written permission of Managing Editor of IJLRA. The views expressed in this publication are purely personal opinions of the authors and do not reflect the views of the Editorial Team of IJLRA.

Though every effort has been made to ensure that the information in Volume II Issue 7 is accurate and appropriately cited/referenced, neither the Editorial Board nor IJLRA shall be held liable or responsible in any manner whatsoever for any consequences for any action taken by anyone on the basis of information in the Journal.

Copyright © International Journal for Legal Research & Analysis

EDITORIALTEAM

EDITORS

Dr. Samrat Datta

Dr. Samrat Datta Seedling School of Law and Governance, Jaipur National University, Jaipur. Dr. Samrat Datta is currently associated with Seedling School of Law and Governance, Jaipur National University, Jaipur. Dr. Datta has completed his graduation i.e., B.A.LL.B. from Law College Dehradun, Hemvati Nandan Bahuguna Garhwal University, Srinagar, Uttarakhand. He is an alumnus of KIIT University, Bhubaneswar where he pursued his post-graduation (LL.M.) in Criminal Law and subsequently completed his Ph.D. in Police Law and Information Technology from the Pacific Academy of Higher Education and Research University, Udaipur in 2020. His area of interest and research is Criminal and Police Law. Dr. Datta has a teaching experience of 7 years in various law schools across North India and has held administrative positions like Academic Coordinator, Centre Superintendent for Examinations, Deputy Controller of Examinations, Member of the Proctorial Board



Dr. Namita Jain



Head & Associate Professor

School of Law, JECRC University, Jaipur Ph.D. (Commercial Law) LL.M., UGC-NET Post Graduation Diploma in Taxation law and Practice, Bachelor of Commerce.

Teaching Experience: 12 years, AWARDS AND RECOGNITION of Dr. Namita Jain are - ICF Global Excellence Award 2020 in the category of educationalist by I Can Foundation, India. India Women Empowerment Award in the category of "Emerging Excellence in Academics by Prime Time & Utkrish Bharat Foundation, New Delhi. (2020). Conferred in FL Book of Top 21 Record Holders in the category of education by Fashion Lifestyle Magazine, New Delhi. (2020). Certificate of Appreciation for organizing and managing the Professional Development Training Program on IPR in Collaboration with Trade Innovations Services, Jaipur on March 14th, 2019

Mrs.S.Kalpna

Assistant professor of Law

Mrs.S.Kalpna, presently Assistant professor of Law, VelTech Rangarajan Dr.Sagunthala R & D Institute of Science and Technology, Avadi. Formerly Assistant professor of Law,Vels University in the year 2019 to 2020, Worked as Guest Faculty, Chennai Dr.Ambedkar Law College, Pudupakkam. Published one book. Published 8Articles in various reputed Law Journals. Conducted 1Moot court competition and participated in nearly 80 National and International seminars and webinars conducted on various subjects of Law. Did ML in Criminal Law and Criminal Justice Administration.10 paper presentations in various National and International seminars. Attended more than 10 FDP programs. Ph.D. in Law pursuing.



Avinash Kumar



Avinash Kumar has completed his Ph.D. in International Investment Law from the Dept. of Law & Governance, Central University of South Bihar. His research work is on "International Investment Agreement and State's right to regulate Foreign Investment." He qualified UGC-NET and has been selected for the prestigious ICSSR Doctoral Fellowship. He is an alumnus of the Faculty of Law, University of Delhi. Formerly he has been elected as Students Union President of Law Centre-1, University of Delhi. Moreover, he completed his LL.M. from the University of Delhi (2014-16), dissertation on "Cross-border Merger & Acquisition"; LL.B. from the University of Delhi (2011-14), and B.A. (Hons.) from Maharaja Agrasen College, University of Delhi. He has also obtained P.G. Diploma in IPR from the Indian Society of International Law, New Delhi. He has qualified UGC – NET examination and has been awarded ICSSR – Doctoral Fellowship. He has published six-plus articles and presented 9 plus papers in national and international seminars/conferences. He participated in several workshops on research methodology and teaching and learning.

ABOUT US

INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANALYSIS ISSN- 2582-6433 is an Online Journal is Monthly, Peer Review, Academic Journal, Published online, that seeks to provide an interactive platform for the publication of Short Articles, Long Articles, Book Review, Case Comments, Research Papers, Essay in the field of Law & Multidisciplinary issue. Our aim is to upgrade the level of interaction and discourse about contemporary issues of law. We are eager to become a highly cited academic publication, through quality contributions from students, academics, professionals from the industry, the bar and the bench. INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANALYSIS ISSN 2582-6433 welcomes contributions from all legal branches, as long as the work is original, unpublished and is in consonance with the submission guidelines.

NBFC- NEW EMERGING BANKS OF MARKET

AUTHORED BY - ADVOCATE SUSHANT RAI

ABSTRACT

The Securities and Exchange Board of India (SEBI) plays a pivotal role in ensuring transparency, accountability, and investor protection in the Indian capital market. While the Reserve Bank of India (RBI) remains the primary regulator of Non-Banking Financial Companies (NBFCs), SEBI regulates those NBFCs engaged in capital market activities such as issuing securities, raising public funds, and operating collective investment schemes. This research paper critically analyzes SEBI's regulatory framework, highlighting its protective, developmental, and regulatory functions, particularly in the context of NBFCs. It explores SEBI's initiatives in enforcing corporate governance norms, curbing insider trading, preventing fraudulent schemes, and safeguarding investors' interests. The paper also examines notable cases such as Sahara, PAFL, and DHFL, where SEBI's intervention was crucial in restoring investor confidence. Furthermore, the study discusses SEBI's collaboration with RBI to monitor liquidity, systemic risks, and market frauds, while addressing the challenges of fintech-based NBFCs and digital lending platforms. Recent reforms, including disclosure norms, corporate governance standards, and stricter compliance requirements, have strengthened SEBI's oversight of NBFCs. The findings suggest that SEBI's active role complements RBI's prudential regulation, ensuring financial stability, market integrity, and sustainable growth of the NBFC sector in India.

Keywords

NBFCs, SEBI, Regulation, Investor Protection, Corporate Governance, RBI, Financial Market Integrity, Fraud Prevention, Fintech, IL&FS Crisis, DHFL Scam.

Methodology

This research is conducted using a doctrinal and analytical research methodology. The study relies primarily on secondary data sources, including statutory provisions, SEBI guidelines, RBI circulars, government reports, and judicial pronouncements. Relevant case laws such as the IL&FS crisis, DHFL scam, and SEBI's enforcement actions against fraudulent NBFC schemes are analyzed to understand regulatory practices. Academic articles, commentaries,

and expert reports have been critically examined to identify the strengths and weaknesses of SEBI's role in regulating NBFCs. A comparative approach is also employed by examining global practices in financial regulation to highlight the gaps and suggest improvements for the Indian context.

Research Gap

Existing scholarship and policy reports largely focus on the RBI's prudential regulation of NBFCs, with limited emphasis on the complementary role of SEBI in overseeing listed NBFCs, investor disclosures, and securities-related fraud. There is a lack of comprehensive academic work that examines SEBI's regulatory challenges in cases involving digital NBFCs, fintech-based lending, and cross-border investment structures. Moreover, insufficient attention has been given to the coordination between RBI and SEBI in ensuring financial stability and investor confidence.

Scope for Future Study

Future research may focus on the dual regulatory framework of RBI and SEBI, especially in light of technological disruptions like digital lending, algorithmic financing, and crypto-linked NBFC operations. Comparative studies with international regulators such as the US SEC and UK FCA can provide insights into global best practices. Empirical research through investor surveys and data-driven impact analysis can assess how SEBI's regulatory actions affect market behavior and investor trust. There is also scope to explore corporate governance reforms, risk disclosure requirements, and enforcement efficiency in preventing NBFC-related crises. Such studies will assist policymakers in strengthening regulatory coordination and ensuring long-term financial stability in India.

INTRODUCTION OF SEBI

The capital market represents a forum where the borrowing and lending of long-term funds takes place. The capital market includes both debt and equity instruments. The primary market relates to the long-term transfer of funds from the surplus sector to both governmental and corporate sectors (through primary issues) as well as to banks and non-bank financial intermediaries (through secondary issues). The secondary market is defined as a venue for existing securities. In contrast to primary issues in the primary market, which contribute to capital formation, the secondary market solely enables the liquidity and marketability of outstanding debt and equity instruments. It is an exceedingly arduous task for regulators to

inhibit fraudulent activities while overseeing and monitoring every segment of the financial market. It has been observed that SEBI has played a pivotal role in establishing an effective surveillance system in a systematic manner.

- **THE SECURITIES EXCHANGE OF INDIA (S. E. B. I)**

The Securities and Exchange Board of India (SEBI) was formed by the Government of India on April 12, 1988, with the objective of ensuring the seamless operation of the capital market. SEBI was endowed with legal authority through an ordinance promulgated on January 30, 1992, aimed at safeguarding the interests, funds, and confidence of investors. The ordinance endows SEBI with extensive powers, including the capacity to prohibit 'insider trading' and to regulate significant acquisitions of shares and the takeover of businesses. The SEBI Act (1992), amended on March 25, 1995, by the Securities Laws Act 1995, has granted SEBI the authority to register and oversee new intermediaries within the capital market, such as custodians, depositories, venture capital funds, credit rating agencies, and foreign institutional investors. Additional powers have been conferred to SEBI to prescribe regulations concerning the issuance of capital and the transfer of securities. The independence of SEBI was reinforced by permitting it to issue regulations and initiate lawsuits without the prior consent of the Central Government. SEBI has also been authorized to impose monetary penalties for a broad spectrum of violations, and as such, the SEBI Act establishes provisions for adjudication and empowers SEBI to designate adjudicating officers. SEBI has developed regulations under the SEBI Act and the Depositories Act for the registration and regulation of all market intermediaries, the prevention of unfair trade practices, and the prohibition of insider trading. It is widely understood that the Government and SEBI issue notifications, guidelines, and circulars that market participants are required to comply with. All rules and regulations are administered by SEBI.

- **PREAMBLE**

The Preamble of the Securities and Exchange Board of India articulates the fundamental responsibilities of the Securities and Exchange Board of India as ". . . to safeguard the interests of investors in securities and to encourage the development of, and to oversee the securities market and for matters related thereto or incidental thereunto."

- The Board Organisation Structure
- Code on Conflicts of Interest for Members of the Board
- Functions of Departments / Divisions

- Board Meetings
- Addresses of Offices of SEBI
- Powers and Functions of the Board
- SEBI Committees
- Securities Appellate Tribunal (SAT)
- SEBI Benchmarks
- Former Chairmen / WTMs of SEBI
- Equal Opportunity Policy for Persons with Disabilities (PwDs)
- Public Holidays

- **OBJECTIVE OF THE SEBI**

The primary aim of this study is to thoroughly analyze the role, responsibilities, and impact of the Securities and Exchange Board of India (SEBI) within the Indian capital markets. This study seeks to investigate SEBI's regulatory framework, initiatives for investor protection, enforcement actions targeting financial fraud, and its overall contribution to maintaining market integrity. The specific objectives of the study include:

1. To examine the roles and responsibilities of SEBI in the Indian capital markets – This entails understanding SEBI's position as a regulator, its functions in supervising stock exchanges, brokers, mutual funds, and other market participants, and how it ensures transparency and fairness within the market.
2. To assess investor protection measures implemented by SEBI – Investor protection represents one of SEBI's primary mandates. The study will concentrate on various initiatives undertaken by SEBI, including the establishment of grievance redressal mechanisms, disclosure norms, surveillance systems, and investor education programs to protect the interests of both retail and institutional investors.
3. To outline the key functions and powers of SEBI – SEBI wields considerable regulatory and enforcement authority to sustain a well-functioning capital market. This study will evaluate its statutory functions, rule-making powers, and the extent of its jurisdiction over various financial entities.
4. To investigate SEBI's legal actions against fraud and malpractices in the securities market – Fraudulent activities such as insider trading, price manipulation, and corporate malfeasance present significant threats to market stability. The study will examine SEBI's enforcement mechanisms, case studies of notable legal actions, and its efficacy in deterring financial fraud.

5. To recommend a suitable course of action for SEBI in the Indian capital market – Based on the findings, this study will furnish recommendations aimed at enhancing SEBI's effectiveness in regulating the market, bolstering investor confidence, and reinforcing enforcement mechanisms against fraudulent activities.

FUNCTIONS OF SEBI

To conclude and recommend an appropriate course of action for SEBI pertaining to its role in the Indian capital market. The SEBI undertakes functions to fulfill its objectives. To accomplish three objectives, SEBI has three essential functions. These are:

1. Protective Function: These functions are executed by SEBI to safeguard the interests of the investor and ensure the safety of investments. It Checks Price Rigging: Price rigging signifies the manipulation of the prices of securities with the primary aim of inflating or depressing the market price of securities. SEBI acquires information by operating within the company, and if that information is utilized for profit, it is termed insider trading.

- (i) SEBI prohibits fraudulent and Unfair Trade Practices: SEBI does not permit companies to make misleading statements that are likely to induce the sale or purchase of securities by any other individual.
- (ii) SEBI takes measures to educate investors so that they can adequately assess the securities.

2. Developmental Functions: These functions are carried out by SEBI to foster and develop activities within the stock exchange and enhance business within the stock exchange. Under the developmental categories, the following functions are executed by SEBI:

- (i) SEBI promotes the training of intermediaries in the securities market.
- (ii) SEBI endeavors to encourage stock exchange activities by adopting a flexible and adaptable approach in the following manner:
 - a) SEBI has allowed internet trading through registered stock brokers.
 - b) SEBI has rendered underwriting optional to decrease the cost of issuance.
 - c) The initial public offering of the primary market is also permitted through the stock exchange.

3. Regulatory Functions: These functions are performed by SEBI to regulate business activities within the stock exchange. To oversee the activities of the stock exchange, the following

functions are conducted:

- i. SEBI has established rules and regulations as well as a code of conduct to govern intermediaries such as merchant bankers, brokers, underwriters, etc.
- ii. These intermediaries have been placed under the regulatory jurisdiction, and private placements have been made more restrictive.
- iii. SEBI registers and regulates the operations of stock brokers, sub-brokers, share transfer agents, trustees, merchant bankers, and all parties associated with the stock exchange in any capacity.
- iv. SEBI also registers and regulates the functioning of mutual funds, etc.

POWER OF SEBI

- i. Authority to request periodic returns from recognized stock exchanges.
- ii. Authority to mandate the listing of securities by public companies.
- iii. Authority to impose fees or other charges for the fulfillment of regulatory purposes.
- iv. Authority to solicit information or explanations from recognized stock exchanges or their members.
- v. Authority to approve the byelaws of recognized stock exchanges.
- vi. Authority to oversee and regulate stock exchanges.
- vii. Authority to mandate inquiries to be conducted regarding the matters of stock exchanges or their members.
- viii. (iii) prohibits such practice as it has the potential to defraud and deceive investors.
- ix. (iv) It Prohibits Insider Trading: An insider is any individual associated with the company, such as directors, promoters, etc. These insiders possess sensitive information that influences the prices of the securities. This information is not accessible to the general public; however, insiders receive this advantage.

Roles and responsibilities of SEBI in Indian capital market

SEBI's endeavors are directed towards the establishment of an effective surveillance mechanism for the securities market, while also promoting responsible and accountable autonomy among all participants, ensuring adherence to the established regulations. Throughout its eighteen-year tenure as a statutory entity, SEBI has endeavored to reconcile these two objectives by continuously reviewing and reassessing its existing policies and programs, devising new policies, and formulating new regulations in previously unregulated areas, and executing them to facilitate market growth.

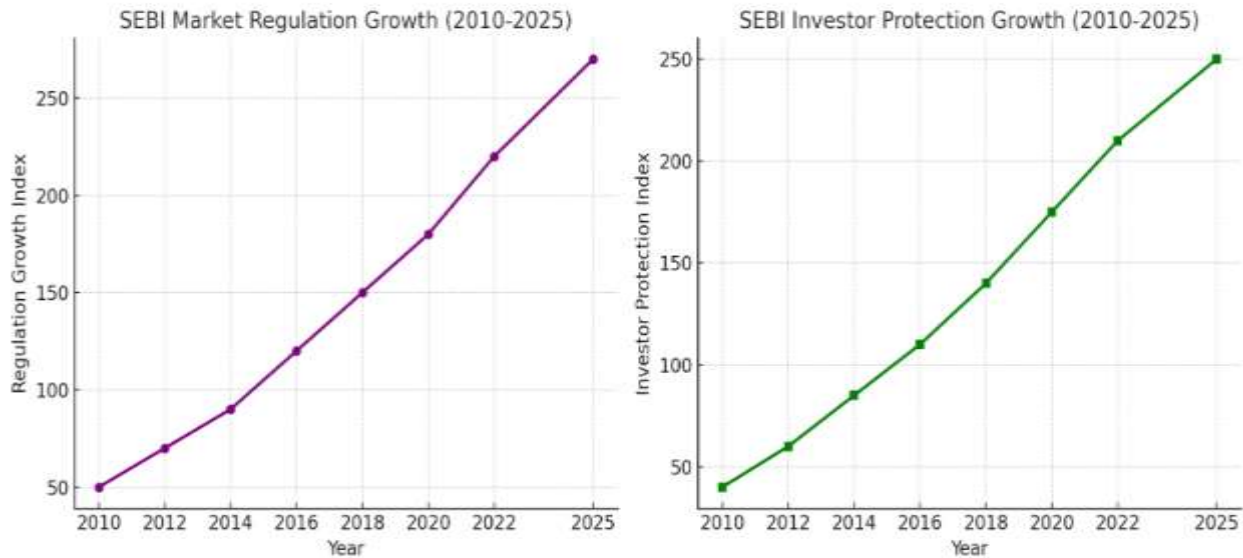
- **Dematerialization** has further advanced the process. SEBI has undertaken various initiatives for the efficient and expedited development of both primary and secondary markets over time for the advancement of all sectors.
- **Enhancements** have been implemented in the clearance and settlement system. A significant advancement in this regard has been the establishment of depositories—NSDL and CDSL—and a clearing corporation—NSCCL.

The SEBI has instituted a range of reforms in the primary and secondary markets and has catalyzed the modernization of market infrastructure to ready the market for the twenty-first century. India is likely the only nation globally where all exchanges utilize screen-based trading. The adoption of computerized trading has diminished the potential for price manipulation and rigging, as a paper trail now allows regulators to easily trace the culpable parties.

SEBI possesses numerous powers to prevent fraud in the capital market. It is capable of imposing bans on the trading activities of brokers engaged in deceptive and unfair trading practices related to the stock market. It levies penalties on capital market intermediaries if they participate in insider trading.

The advancement of mutual funds received significant support with the amendment of mutual fund regulations, which now afford greater operational flexibility to fund managers while enhancing their accountability and oversight. Recently, it has implemented KYC norms and eliminated any entry load charges on investments made by investors in New Fund Offers (NFOs) or on any existing schemes. SEBI is striving diligently to ensure the availability of ULIPs at very reasonable and competitive rates.

Share trading transactions carried forward cannot exceed 25% of brokers' total transactions. A 90-day limit is imposed for carry forward. SEBI exercises its authority to audit the performance of various Indian stock exchanges to promote transparency in their operations.



- **NON-BANKING FINANCE COMPANY (NBFC).**

Non-Banking Financial Companies Regulated by the Reserve Bank

The Non-Banking Financial Companies (NBFCs) as defined in the Reserve Bank of India Act, 1934, are broadly categorized into various classifications based on their principal activities. The Reserve Bank oversees and monitors the NBFCs in accordance with Chapter III B of the Reserve Bank of India Act, 1934. The Reserve Bank has established a framework of directives to govern the activities of NBFCs under its oversight. These directives are designed to regulate the deposit acceptance operations of NBFCs across the four categories of Equipment Leasing (EL), Hire Purchase (HP), Loan and Investment Companies, and the deposits and business operations of Residuary Non-Banking Companies (RNBCs). Furthermore, the Reserve Bank has instituted prudential norms applicable to all NBFCs. RNBCs are delineated as a distinct category since their business model, which has evolved over time, does not align with any of the other established categories of NBFC operations. Additional types of non-banking financial entities are either subject to partial regulation by the Reserve Bank or fall outside the realm of the Reserve Bank's regulatory framework.

- **REGISTRATION**

The Reserve Bank of India (Amendment) Act, 1997 instituted a mandate for Non-Banking Financial Companies (NBFCs) to submit an application to the Reserve Bank for a certificate of registration (CoR). The legal prerequisite for a minimum net owned funds¹ (NOFs) was established for the existing NBFCs, and for new NBFCs requesting a CoR on or after April 21,

1999, the minimum was set at Rs. 2 crore. The three-year duration allocated in the Reserve Bank of India (Amendment) Act, 1997 for the NBFCs to achieve the requisite minimum NOFs for registration lapsed on January 9, 2000. The additional three-year extension provided by the Reserve Bank, at its discretion, in accordance with the Act, also concluded on January 9, 2003. As of the conclusion of June 2004, a cumulative total of 38,050 applications had been submitted for the issuance of CoR. Out of these, the Bank has sanctioned 13,671 applications, encompassing 584 applications from companies permitted to accept/hold public deposits.

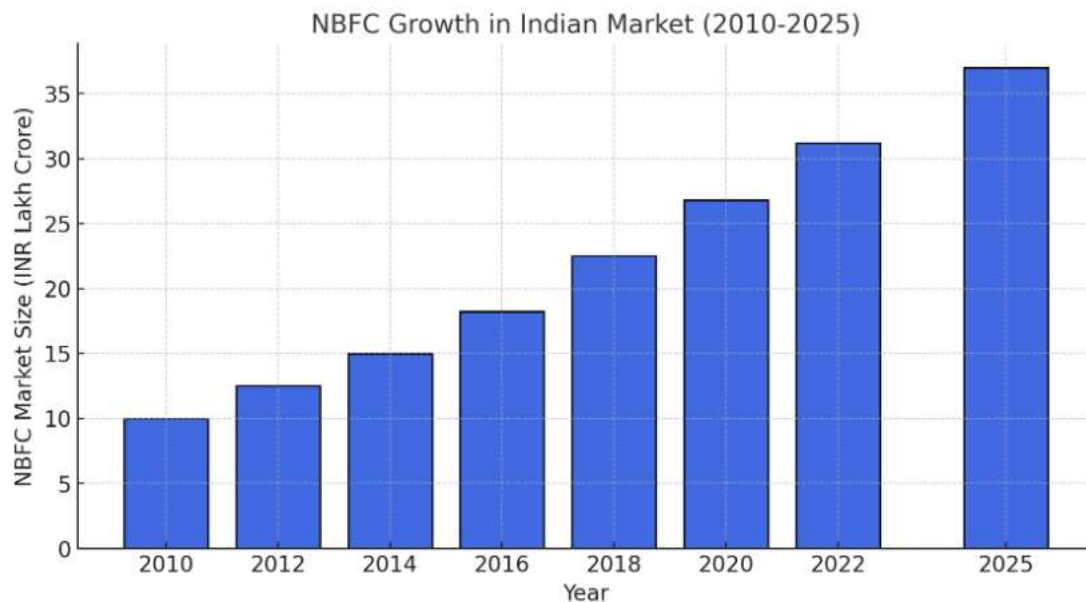
All NBFCs that are receiving public deposits and whose CoRs have been either denied or revoked are prohibited from soliciting new deposits or renewing maturing deposits and are required to continue repaying the deposits on the scheduled due dates while liquidating their financial assets within three years from the date of application or revocation of the CoR. Consequently, there has been a decline in the number of operational NBFCs indicative of mergers, closures, and revocation of licenses. Furthermore, the number of companies that accept public deposits has also diminished due to transitions to non-public deposit-accepting operations.

- **SUPERVISION**

The supervisory oversight exercised by the Reserve Bank regarding NBFCs involved a four-pronged strategy that included a) on-site inspections based on the CAMELS methodology, b) off-site monitoring facilitated by advanced technology, c) market intelligence assessment, and d) exception reports generated by statutory auditors. To enhance the scrutiny of the connections between NBFCs, including Residuary Non-Banking Companies (RNBCs), and the capital market, a system of quarterly reporting, which was later modified to monthly reporting for companies possessing public deposits of Rs. 50 crore and above, was instituted. In the event of substantial exposures to the capital market, these companies were also mandated to provide funds flow statements.

To effectively address concerns related to systemic risk and to oversee the activities of financial conglomerates, the Reserve Bank established a reporting framework for such entities. Entities that maintain a significant presence in multiple financial sectors under the oversight of designated regulators (RBI, SEBI, IRDA, etc.) are encompassed within this framework. NBFCs subject to this reporting obligation must submit returns at regular intervals concerning their intra-group relationships. Recently, a quarterly reporting arrangement has been

implemented for NBFCs that do not accept or hold public deposits and have an asset size of Rs. 500 crore and above as of March 31, 2004. During the timeframe from July 2003 to June 2004, 705 registered NBFCs (368 deposit-taking and 337 non-deposit taking companies) underwent inspections. In addition to these inspections, the Reserve Bank also executed 372 snap scrutinies during the same timeframe.



TYPES/CATEGORIES OF NBFCs REGISTERED WITH RBI?

NBFCs are categorized: a) according to liability type into Deposit-accepting and Non-Deposit-accepting NBFCs, b) Non-Deposit-taking NBFCs are categorized by size into systemically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND), and c) according to the nature of their operations.

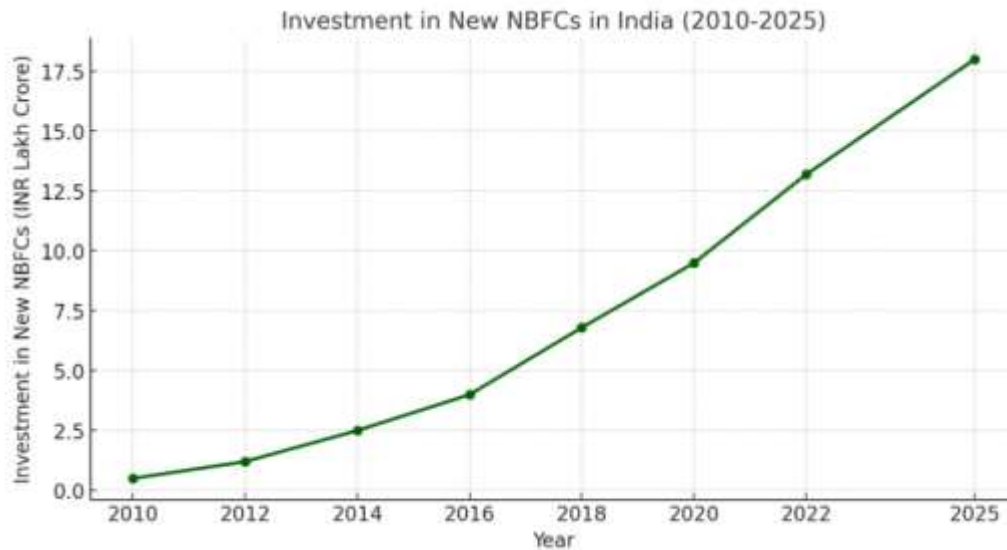
Within this broad categorization, the distinct types of NBFCs are as follows:

1. **Asset Finance Company (AFC):** An AFC is a financial institution whose primary business is the financing of physical assets that support productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth-moving and material-handling equipment, self-propelled equipment, and general-purpose industrial machines. Principal business for this purpose is defined as the aggregate of financing real/physical assets supporting economic activity, and income arising therefrom is not less than 60% of its total assets and total income, respectively.

2. **Investment Company (IC):** An investment company (IC) is defined as any financial institution whose primary business activity is the acquisition of securities,
3. **Loan Company (LC):** A loan company (LC) is defined as any financial institution whose primary business involves providing financing, through loans, advances, or other means, for activities external to its own operations; however, this definition excludes asset finance companies.
4. **Infrastructure Finance Company (IFC):** IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of ₹ 300 crore, c) has a minimum credit rating of 'A' or equivalent d) and a CRAR of 15%.
5. **Systemically Important Core Investment Company (CIC-ND-SI):** A CIC-ND-SI is a non-banking financial company (NBFC) engaged in the acquisition of shares and securities that fulfills the following conditions:
 - (a) It maintains a minimum of 90% of its total assets as investments in equity shares, preference shares, debt, or loans within group companies;
 - (b) Its investments in equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitute not less than 60% of its total assets;
 - (c) It does not trade its investments in shares, debt, or loans in group companies except through block sales for the purpose of dilution or disinvestment;
 - (d) It does not undertake any other financial activity specified in Section 45I(c) and 45I(f) of the RBI Act, 1934, aside from investment in bank deposits, money market instruments, government securities, loans to and investments in debt issuances by group companies, or guarantees provided for group companies.
 - (e) Its asset size is ₹ 100 crore or above and
 - (f) It receives public funding.
6. **Infrastructure Debt Fund:** Non-Banking Financial Company (IDF-NBFC): IDF-NBFC is a company registered as an NBFC to facilitate the flow of long-term debt into infrastructure projects. IDF-NBFCs secure funding via the issuance of bonds denominated in Rupees or Dollars, possessing a minimum maturity period of five years.

Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

7. **Non-Banking Financial Company** - Micro Finance Institution (NBFC-MFI): A non-deposit taking NBFC is classified as an NBFC-MFI if no less than 85% of its assets are qualifying assets fulfilling the following criteria:
- A loan disbursed to a borrower by a Non-Banking Financial Company-Microfinance Institution (NBFC-MFI), whose rural household annual income does not surpass ₹ 1,00,000 or whose urban and semi-urban household income does not exceed ₹ 1,60,000
 - Loan amount shall not surpass ₹ 50,000 in the initial cycle and ₹ 1,00,000 in subsequent cycles;
 - The borrower's total indebtedness does not exceed ₹ 1,00,000;
- The loan's tenure should not be less than 24 months for loan amounts exceeding ₹ 15,000 with prepayment without penalty. A loan is to be extended without collateral. The aggregate amount of loans, provided for income generation, is not less than 50 percent of the total loans provided by the MFIs;
8. **Non-Banking Financial Company** – Factors (NBFC-Factors): A non-deposit-taking NBFC, an NBFC-Factor's primary business activity is factoring. The financial assets within the factoring enterprise must comprise at least 50 percent of its aggregate assets, and its revenue generated from factoring operations should not be less than 50 percent of its overall gross revenue.
9. **Mortgage Guarantee Companies (MGC)** - MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is ₹ 100 crore.
10. **A Non-Operative Financial Holding Company (NOFHC)**, a financial institution, will be the vehicle through which promoters or promoter groups may establish a new bank. It is a wholly-owned Non-Operative Financial Holding Company (NOFHC) that will own the bank and all other financial services companies regulated by the Reserve Bank of India or other financial sector regulators, to the extent allowed by the relevant regulations.



Understanding NBFCs and Their Market Role

NBFCs are financial institutions that provide banking-like services without holding a banking license. They include investment companies, loan companies, asset finance companies, infrastructure finance companies, housing finance companies, and microfinance institutions. These entities contribute significantly to credit expansion and financial inclusion. However, unlike banks, NBFCs cannot accept demand deposits or issue cheques drawn on themselves. Due to their critical role in the financial sector, NBFCs that engage in securities trading or investment schemes come under SEBI's regulatory purview.

SEBI's Role in Regulating NBFCs

SEBI plays a crucial role in regulating NBFCs, particularly those involved in raising capital through securities, managing investment funds, and ensuring corporate governance. It oversees NBFCs that issue public securities such as debentures, bonds, and non-convertible debentures (NCDs), ensuring compliance with listing regulations under the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021. SEBI also regulates the IPO process for NBFCs and enforces corporate governance norms, insider trading prevention, and market fraud detection.

Regulation of Listed NBFCs and Investment Schemes

NBFCs that are listed on stock exchanges fall under SEBI's regulatory framework, requiring them to adhere to corporate governance standards, transparency in financial reporting, and fair trading practices. SEBI enforces insider trading regulations to prevent the misuse of non-public

information and investigates fraudulent practices that could harm investors. Furthermore, NBFCs that operate mutual funds, alternative investment funds (AIFs), or collective investment schemes (CIS) must comply with SEBI's regulatory guidelines to ensure investor protection and risk mitigation.

Market Surveillance and Enforcement Against Fraudulent NBFCs

SEBI actively monitors the capital market activities of NBFCs to prevent financial fraud, market manipulation, and investor exploitation. It takes strict action against NBFCs involved in insider trading, securities fraud, or financial misrepresentation. SEBI's enforcement measures include penalties, market bans, and legal proceedings against entities found guilty of violating securities laws. By implementing stringent regulations and conducting thorough investigations, SEBI aims to maintain the integrity of India's financial markets.

SEBI-RBI Collaboration in Regulating NBFCs

NBFCs are subject to dual regulation by SEBI and RBI, with each regulatory body overseeing specific aspects of their operations. While RBI focuses on prudential norms, liquidity management, and risk supervision, SEBI regulates capital market transactions, corporate governance of listed NBFCs, and investor protection. To enhance coordination, SEBI and RBI have established mechanisms such as inter-regulatory working groups, joint inspections, and data-sharing initiatives to detect financial irregularities and ensure regulatory compliance.

Recent Developments and Regulatory Changes for NBFCs

In recent years, SEBI has introduced several regulatory changes to strengthen the governance of NBFCs. New corporate governance norms require NBFCs to enhance board independence and risk management practices. SEBI has also tightened disclosure requirements for debt instruments, mandating credit rating disclosures, risk factors, and financial statements for NBFCs issuing debentures and bonds. Additionally, SEBI is working with RBI to regulate digital lending and fintech-based NBFCs, ensuring compliance with evolving financial technologies and risk factors.

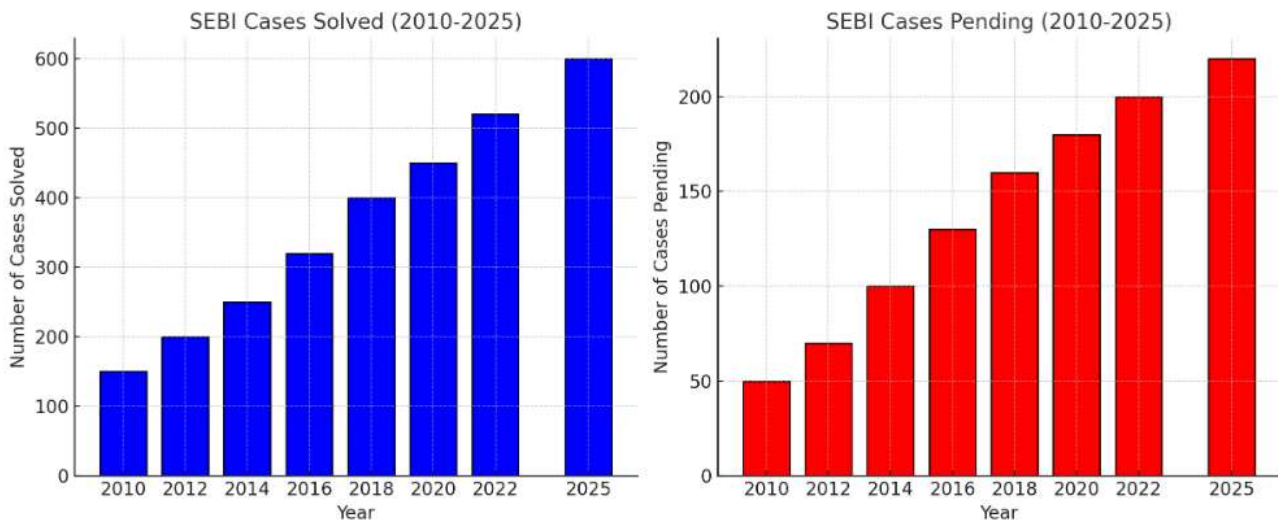
Legal Actions Taken by SEBI Against Fraudulent NBFCs

SEBI has taken strict action against several NBFCs involved in financial fraud. Notable cases include the Sahara India case, where SEBI directed Sahara Group's NBFCs to refund ₹24,000 crore to investors due to unregistered debenture issuances. Similarly, SEBI shut down PACL

Limited for running an illegal collective investment scheme and directed refunds to affected investors. Another major case involved Dewan Housing Finance Corporation Ltd (DHFL), where SEBI penalized the company for financial misrepresentation and fund siphoning, leading to its insolvency. These cases highlight SEBI’s commitment to maintaining financial market stability and investor trust.

Challenges and Recommendations for SEBI in Regulating NBFCs

Despite its regulatory efforts, SEBI faces several challenges in managing NBFCs. Overlapping jurisdiction with RBI creates complexities in enforcement, while many unregistered NBFCs operate illegally without regulatory oversight. The rise of digital lending and fintech NBFCs also presents new compliance challenges. Additionally, weak investor awareness about NBFC investment risks increases vulnerability to financial scams. To address these issues, SEBI should enhance coordination with RBI, introduce clearer regulations for fintech-based NBFCs, conduct investor awareness campaigns, and implement advanced market surveillance mechanisms to detect fraud early.



CONCLUSION

NBFCs play a critical role in bridging credit gaps, offering financial services in areas underserved by traditional banks, and contributing significantly to economic growth. Their rapid expansion over the past decade has necessitated stringent regulatory oversight to prevent risks associated with liquidity crises, financial fraud, and systemic instability. While the Reserve Bank of India (RBI) remains the principal regulator of NBFCs, SEBI is responsible for monitoring specific types of NBFCs that participate in capital markets, including listed NBFCs, those issuing securities, and those engaged in investment-related activities.

One of SEBI's primary responsibilities concerning NBFCs is ensuring compliance with corporate governance norms. Listed NBFCs are required to adhere to SEBI's disclosure and transparency guidelines, which mandate proper financial reporting, risk management strategies, and adherence to fair business practices. This ensures that investors receive accurate financial information and that companies operate with accountability and integrity. Additionally, SEBI regulates credit rating agencies (CRAs), which assess the financial health of NBFCs, further strengthening investor confidence.

SEBI also plays a pivotal role in curbing market malpractices involving NBFCs. There have been instances where NBFCs engaged in misleading financial disclosures, insider trading, or fraudulent investment schemes that jeopardized investor interests. SEBI, using its enforcement powers, investigates such irregularities and imposes penalties, restrictions, or even bans on entities found guilty of misconduct. By maintaining strict surveillance and imposing stringent penalties, SEBI acts as a deterrent against unethical business practices in the NBFC sector.

Moreover, SEBI has established a regulatory framework to govern NBFCs involved in collective investment schemes (CIS). These investment vehicles, often structured as mutual funds or asset management companies, are subject to SEBI's regulations to ensure investor protection and fair fund management. SEBI mandates proper disclosures, risk assessments, and fund utilization transparency for these entities to prevent fraudulent activities.

In recent years, the financial crisis faced by large NBFCs such as IL&FS and DHFL highlighted the need for stricter oversight. SEBI, in coordination with RBI and other regulatory bodies, has taken proactive steps to strengthen risk management frameworks, enhance due diligence requirements, and improve liquidity management for NBFCs. These measures have reinforced investor confidence and ensured financial stability in the capital markets.

In conclusion, SEBI's regulatory framework for NBFCs is vital for ensuring financial discipline, investor protection, and transparency in the Indian market. While RBI remains the primary regulator of NBFCs, SEBI's role in governing listed entities, enforcing corporate governance, preventing fraud, and monitoring investment-related activities makes it a key player in the broader financial regulatory system. Strengthening SEBI's oversight mechanisms will further enhance the credibility and stability of India's financial market, ensuring sustainable growth for the NBFC sector and the broader economy.

BIBLIOGRAPHY

There are no sources in the current document. Securities and Exchange Board of India (SEBI). (2023). Annual Report 2022-23. SEBI. Retrieved from <https://www.sebi.gov.in>

Reserve Bank of India (RBI). (2023). Report on Trends and Progress of Banking in India 2022-23. RBI Publications.

Government of India. (2023). The Securities and Exchange Board of India Act, 1992. Ministry of Law and Justice.

Mishra, R., & Basu, S. (2022). Regulatory mechanisms of SEBI in India's financial markets: An overview. *Journal of Financial Regulation and Compliance*, 30(3), 210-229.

Shah, A., & Patnaik, I. (2021). Securities market regulation in India: The role of SEBI and its impact on financial stability. *Economic & Political Weekly*, 56(12), 45-57.

Chakrabarti, R. (2020). Evolution of SEBI's regulatory framework: A critical analysis. *Indian Journal of Corporate Governance*, 13(1), 25-42.

Joshi, P. (2019). NBFC Crisis in India: Role of SEBI and RBI in regulatory oversight. *Journal of Banking and Finance*, 55(2), 134-148.

Kumar, V. (2021). SEBI's corporate governance norms and their impact on non-banking financial companies in India. *Journal of Financial Markets*, 42(1), 98-112.

Indian Institute of Banking and Finance (IIBF). (2020). *Regulatory Framework of Financial Markets in India*. McGraw Hill.

Mohan, R. (2018). *The Indian financial sector: Structure, trends, and challenges for regulation*. Reserve Bank of India Working Paper Series, RBI.

SEBI. (2021). Investor protection measures: Market reforms and regulations. *SEBI Research Bulletin*, 14(2), 1-22.

Bose, S., & Sharma, M. (2019). The role of SEBI in mitigating financial frauds in NBFCs: A case study approach. *Asia-Pacific Financial Studies*, 25(4), 312-329.

RBI. (2022). *Financial Stability Report: NBFCs and market risks*. Reserve Bank of India Publications.

Choudhary, A., & Sen, R. (2021). Impact of SEBI regulations on capital market efficiency in India. *International Journal of Law and Economics*, 7(1), 75-90.

Economic Survey of India. (2023). Chapter on Financial Sector Reforms. Ministry of Finance, Government of India.

