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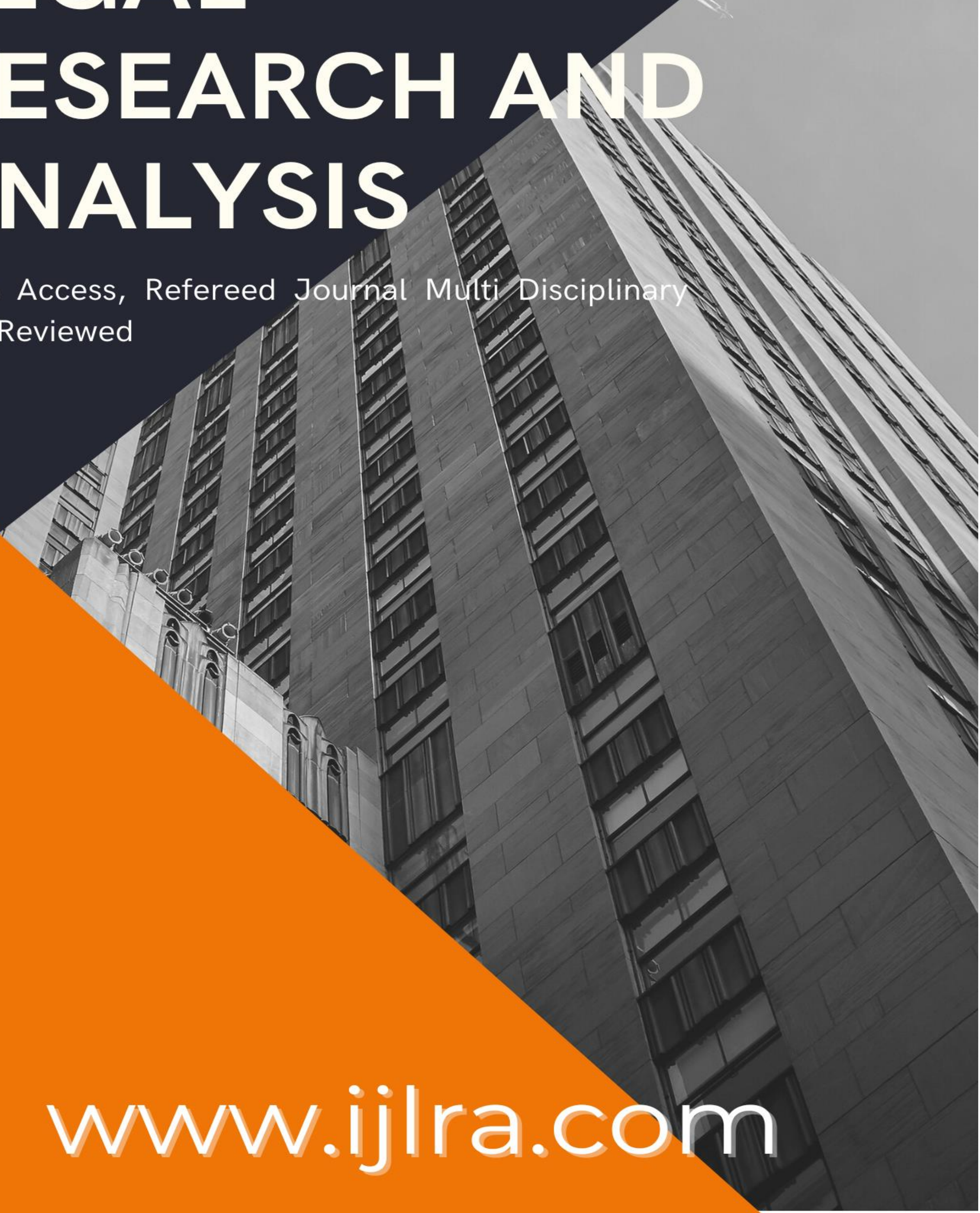

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THE INDIAN INVESTOR STRIKES BACK – HOW THE SECURITIES MARKET CODE 2025 REVOLUTIONISES INVESTOR PROTECTION

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1. INTRODUCTION

Investor protection and grievance redressal are the cornerstone of securities regulation in India. In India, however, the grievance redressal mechanism under the existing regime, primarily governed by the Securities and Exchange Board of India Act, the Securities Contracts (Regulation) Act and the Depositories Act, has been functioning under a fragmented manner. The Securities Market Code Bill of 2025 (hereinafter referred to as 'SMC') is a step by the legislature to bring these fragmented laws under one umbrella and modernize the ageing securities laws of the nation.

This article argues that the present statutes are overly dependent on punitive action rather than compensation to the aggrieved investors. It further substantiates on the grey areas pertaining to the credibility of the **SEBI Complaints Redress System** complaint platform. The article subsequently shows how the SMC strives to overcome these issues by making the system focus on 'direct compensation to victims' rather than 'pure punitive action'. Lastly, the article critically analyses certain shortcomings of the SMC and makes a focussed comparison with redressal systems abroad.

2. HOW THE SECURITIES MARKET CODE 2025 IMPROVES INVESTOR REMEDIES

2.1. THE ISSUES PERTAINING TO THE PRE-SMC LANDSCAPE –

2.1.1.1. The SEBI Act, as of now, possesses sufficient and broad powers to investigate and take enforcement actions[1] against defaulters. However, it is seen that the provisions provided therein are unable to translate to tangible investor relief. While disgorgement provisions exist, they are merely punitive in nature. The disgorged amounts, after being transferred to the

[1] Companies Act 2013, s 11 (India).

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Investor Protection and Education Fund, are generally used for investor education, legal aid to investors, funding investor associations and groups and only recently, aid to certain identifiable investors as per Section 4 and 5 of the SEBI (Investor Protection and Education Fund) 2009.[2] Hence, the nature of the current system, as mentioned earlier, is punitive rather than compensatory due to the lack of a restitution framework which may allow the aggrieved investor to get compensated directly for the harm done.

2.1.1.2. The present system in vogue for registering complaints against listed companies, brokers, mutual funds and the like is the Securities Complaint Redressal System (SCORES) launched by the SEBI in 2011.[3] In essence, the system works[4] by allowing the aggrieved entity to register a complaint against the fund, company or broker, allowing them to respond to the complaint within a specific time period with the SEBI monitoring this process. The issue arises due it being an administrative mechanism *not explicitly backed by any statute* and having being created through multiple circulars. In furtherance of this, it is pertinent to note that despite the reforms initiated under the SCORES 2.0, the platform does not have any coercive authority of its own. The judgement *Ashok Dayabhai Shah v. SEBI*, Appeal No. 428 of 2019, ¶ 20 & ¶16 shows the complaints made to SEBI between 2013 and 2020 were not disposed of; however, the complaints made under SCORES had been closed in entirety. The court in ¶16 of the same judgement held that the closing of complaints under the SCORES was 'no disposal in the eyes of law' and amounts to a mere 'eye-wash'.[5]

2.1.1.3. The SCORES 2.0 introduced in 2023 allows the aggrieved investor to file for appeals and introduces *timelines for resolution* but fails in one major area

[2] Securities and Exchange Board of India, *Securities and Exchange Board of India (Investor Protection and Education Fund) Regulations, 200S (last amended on 23 October 2023)* (SEBI, 23 October 2023) https://www.sebi.gov.in/legal/regulations/oct-2023/securities-and-exchange-board-of-india-investor-protection-and-education-fund-regulations-2009-last-amended-on-october-23-2023-_78920.html accessed 3 June 2026.

[3] Securities and Exchange Board of India, 'Processing of Investor Complaints in SEBI Complaints Redress System (SCORES)' (Circular No CIR/OIAE/2/2011, 3 June 2011) https://www.sebi.gov.in/legal/circulars/aug-2011/processing-of-investor-complaints-in-sebi-complaints-redress-system-scores-_20398.html accessed 3 June 2026.

[4] Securities and Exchange Board of India, 'SCORES (SEBI Complaints Redress System)' https://investor.sebi.gov.in/sebi_scores.html accessed 3 June 2026.

[5] *Ashok Dayabhai Shah v Securities and Exchange Board of India* (Appeal No 428 of 2019, Securities Appellate Tribunal, 4 February 2021) paras 16 and 20.

– misuse of the *ability of SEBI to classify complaints as 'Market Intelligence'*. Annexure 2, section 5.7 of the circular pertaining to the revamped SCORES 2.0 platform mentions that complaints made by individual investors may be transferred to the 'Market Intelligence' platform instead of SCORES if SEBI finds the complaint or issue to be pertaining to a violation of any securities law more broadly rather than an individual grievance.[6] The major shortcoming of this classification to market intelligence is that issues investigated under the M.I. platform are highly confidential (FAQ 39 of SCORES) and if an investor's complaint gets transferred therein, he will have little to no power in his hands as regards the status of the investigation.[7] It is to be noted that there *are no published criteria for transferring a complaint from SCORES to MI* in any circular or gazette at the time of writing of this article thus making the system all the more arbitrary.

2.2. HOW THE SECURITIES MARKET CODE ATTEMPTS TO IMPROVE INVESTOR GRIEVANCE REDRESSAL

The recent SMC has provisions which inculcate restitution with respect to disgorgement and concretize the grievance redressal platform.

2.2.1.1. Firstly, as a welcome departure from the Securities and Exchange Board of India act, the disgorgement amounts in certain cases will be directed towards the directly affected investor. Section 25 of the SMC 2025 titled 'Power of disgorgement and restitution' is an explicit step towards this direction. The wordings of the section 25 of the said code appear unambiguous and are aimed at directing the disgorged amounts to the investors with an order of priority and conditions.[8] This change is in harmony with foreign jurisdiction on similar matters. Most notably, in *Liu v. Securities and Exchange Commission,* it was held that disgorged amounts

[6] SEBI, 'Redressal of Investor Grievances through the SEBI Complaint Redressal (SCORES) Platform and Linking it to Online Dispute Resolution Platform' (Circular No SEBI/HO/OIAE/IGRD/CIR/P/2023/156, 20 September 2023) Annexure II, para 5.7.

[7] Securities and Exchange Board of India, 'SCORES FAQs' FAQ 39 https://scores.sebi.gov.in/documents/d/guest/scores-2-0-faqs accessed 3 June 2026.

[8] Akshaya Bhansali, 'Securities Markets Code 2025: Consolidation, Clarity, and the Future of India's Capital Markets' (Bar C Bench, 27 December 2025) https://www.barandbench.com/view-point/securities-markets-code-2025-consolidation-clarity-and-the-future-of-indias-capital-markets accessed 3 June 2026.

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shall be discharged to the aggrieved and the amount to be compensated shall not exceed the wrongful profit of the defendant.[9]

2.2.1.2. Secondly, and most consequentially, clause 75 of the SMC establishes an *independent SEBI ombudsperson* with powers being similar to that of a civil court. The Ombudsperson system has been conceived as a quasi-judicial authority that happens to sit between SEBI's administrative processes and the formal appellate system (Securities Appellate Tribunal).[10] Furthermore, the Ombudsperson's decisions are appealable to the Securities Appellate Tribunal which establishes a radically different hierarchy of dispute resolution and may also significantly increase the workload of the SAT. To combat this increased pressure on the SAT, the SMC has proposed a removal of upper limit as regards the number of members and number of benches of the SAT as provided for in sections 80 to 83. The current SEBI act of 1992 places a bar on the number of members and benches as per section 15L and continuing with this same provision will over-burden the SAT and lead to heavy backlog of cases.

2.2.1.3. Thirdly, the SMC as a progressive step has provided a statutory *Investor Charter* which highlights the rights of the investors explicitly. This, as mentioned earlier in this article, is a step towards rights-based legislation rather than punitive action. The statutory listing of rights is particularly important as it doesn't leave out any grey area for interpretation by courts and quasi-judicial authorities.

2.2.1.4. Fourthly, and notably, the SMC 2025 provides for timelines regarding legislation and appeals. The bill mentions a 180-day timeline for completion of investigations and a 30-day period for the investor to file for appeals to the SAT.

3. SHORTCOMINGS OF THE SECURITES MARKET CODE 2025

3.1 The bill has no doubt made revolutionary changes regarding the topic of investor protection and grievance redressal; however, it stays silent on one procedural detail.

[9] *Liu v. Securities and Exchange Commission*, 591 U.S. 71 (2020), No. 18–1501

[10] Bharat Vasani, Vanya Singh and Vasudha Goenka, 'The Securities Market Code, 2025 (Bill No 200 of 2025): Raising the Bar to Embrace the Future' (India Corporate Law Blog, 7 January 2026) https://corporate.cyrilamarchandblogs.com/2026/01/the-securities-market-code-2025-bill-no-200-of-2025-raising-the-bar-to-embrace-the-future/ accessed 3 June 2026.

No where in the bill is it mentioned whether the revised penalties and remedial powers apply prospectively or not. Section 152(2)(b) of the same deems existing subordinate legislation to continue unless inconsistent; however, it does not provide clarity on whether the disgorgement-to-restitution mechanism applies to pending enforcement proceedings.

3.2 The SMC delegates certain powers of registration and supervision to Market Infrastructure Institutions ("MIIs") such as stock exchanges (BSE and NSE) or depositories (NSDL and CDSL) and Self-Regulatory Organizations (SROs) such as the Association of Mutual Funds in India (AMFI).[11] This move dangerously assumes that private and P.P.P. model entities will exercise their regulatory functions impartially. This is an assumption that the SMC attempts to resolve vaguely but will have to codify properly before it is implemented.

3.3 The Ombudsperson mechanism is one that may work very well for high-volume, low-value transactions (which suits the everyday common investor). However, the SMC remains silent on the criteria which may help solve an issue through the ombudsperson or whether it is a major violation which may require the direct intervention of the SEBI itself.

3.4 In furtherance of the previous shortcoming, the Ombudsperson system is not as structurally impartial when compared to major international investor grievance redressal platforms. As per section 73 of the SMC, it is the SEBI itself which designates any of its officer as the Ombudsperson. This essentially means that ombudsperson is not an entirely independent body. In the United Kingdom, for instance, the Financial Conduct Authority (equivalent of the SEBI) is structurally separate from their Financial Ombudsman Service.

4. CONCLUSION

Thus, the SMC marks a revolutionary shift in India's investor grievance redressal system from punitive to compensatory and rights-based. Provisions relating to restitution of

[11] Abhinav Chandra and Abhijit Dubey, 'The Securities Markets Code: From Fragmentation to Framework' (Legal 500, 29 January 2026) https://www.legal500.com/developments/thought-leadership/the-securities-markets-code-from-fragmentation-to-framework/ accessed 3 June 2026.

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disgorgement of funds, establishment of an Ombudsman, statutory recognition of investors' rights, and the introduction of procedural timelines for investigation and litigation are all welcome steps in India's vast financial landscape. Nevertheless, the code is not entirely free from structural ambiguities. Questions relating to prospective application of the code's new rules, potentially dangerous sharing of powers with MIIs and SROs, and institutional independence of the ombudsperson system remain unanswered as of now. Comparison with the British system underscores the need for an entirely independent and powerful body for solving investor's complaints in a speedy manner. Thus, while the introduction of the SMC is a welcome step without doubt, implementation will have to be done carefully with the need for further regulations as regards sharing of power and clearer procedural safeguards.