

An Analytical Study of the Indian Securities Market: Regulatory Evolution, Retail Participation, and Emerging Technological Trends

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Abstract- The securities market forms the backbone of capital formation and resource allocation in a modern economy, channelling household savings into productive investment while creating avenues for wealth generation. In India, this market has undergone considerable structural and regulatory transformation over the past three decades under the oversight of the Securities and Exchange Board of India (SEBI). This paper presents an analytical study of the Indian securities market, examining its institutional structure, its evolving regulatory architecture — including the proposed Securities Markets Code, 2025 — and the unprecedented surge in retail investor participation, with demat accounts rising from roughly 3.6 crore in 2019 to over 19 crore by 2025. The study further examines the regulatory response to algorithmic and technology-driven trading, with particular reference to SEBI's 2025 framework governing retail participation in algorithmic trading. Drawing on regulatory publications and secondary market data, the paper identifies key challenges relating to investor protection, market integrity and technological risk, and concludes with observations on the likely future trajectory of India's capital markets.

Keywords- Securities Market, SEBI, Securities Markets Code, Retail Investors, Algorithmic Trading, Capital Market Regulation, India.

I. INTRODUCTION

The securities market occupies a central position in the financial architecture of any economy. By providing a mechanism through which savers can invest surplus funds and enterprises can raise capital for expansion, the market performs the twin functions of resource mobilisation and price discovery. In India, the securities market has grown from a narrow, broker-dominated system into one of the largest and most technologically advanced capital markets in the world, supported by dematerialised holdings, electronic trading and a comprehensive statutory framework administered by the Securities and Exchange Board of India (SEBI).

Over the last five years in particular, the Indian securities market has witnessed two parallel and reinforcing developments: first, a sustained overhaul of the regulatory framework culminating in the proposed Securities Markets Code, 2025, and second, an extraordinary expansion in retail investor participation driven by digital brokerage platforms and simplified onboarding processes. Alongside these developments, the rise of algorithmic and technology-enabled

trading has prompted the regulator to design new safeguards specifically for retail participants.

This paper seeks to provide a consolidated, analytical account of these developments. Section II reviews the existing literature on securities market regulation in India. Section III outlines the structural composition of the market. Section IV examines the regulatory framework, including recent legislative consolidation. Section V analyses trends in retail investor participation. Section VI discusses the regulation of algorithmic trading. Section VII identifies the principal challenges facing the market, and Section VIII concludes with observations on the road ahead.

II. LITERATURE REVIEW

Academic and regulatory literature on the Indian securities market has traditionally focused on the statutory powers and investor-protection mandate of SEBI. Srivastava examines SEBI's regulatory role in strengthening the capital market, tracing its evolution from a non-statutory body to a comprehensive regulator vested with quasi-legislative, quasi-executive and quasi-judicial powers, and highlighting its

contribution to market integrity and investor confidence. Earlier scholarship in this vein generally characterises SEBI's framework as reactive, evolving through successive amendments in response to specific market events such as scams, defaults and technological disruptions.

However, much of the existing literature predates two developments that materially alter the regulatory and market landscape: the introduction of the Securities Markets Code Bill, 2025, which proposes to consolidate India's principal securities statutes into a single framework, and the unprecedented growth in retail participation and algorithmic trading witnessed between 2023 and 2025. This paper attempts to address that gap by integrating recent regulatory and market developments into a single analytical account.

III. STRUCTURE OF THE INDIAN SECURITIES MARKET

The Indian securities market is broadly divided into the primary market, where new securities are issued through initial public offerings, rights issues and private placements, and the secondary market, where previously issued securities are traded among investors. The secondary market is anchored by two principal exchanges — the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) — which together provide trading, clearing and settlement infrastructure for equity, debt and derivative instruments.

Ownership of securities is maintained in electronic form through two depositories, the National Securities Depository Limited (NSDL) and the Central Depository Services Limited (CDSL), which eliminate the risks associated with physical share certificates and enable near-instantaneous settlement. Market intermediaries — including stockbrokers, depository participants, portfolio managers, merchant bankers and clearing corporations — connect investors to this infrastructure, while mutual funds, alternative investment funds and exchange-traded funds provide pooled investment vehicles for retail and institutional participants alike. The instruments traded span equities, corporate and government debt, and exchange-traded derivatives, giving the market considerable depth and breadth.

IV. REGULATORY FRAMEWORK: SEBI AND THE SECURITIES MARKETS CODE, 2025

The Securities and Exchange Board of India was established in 1992 as the primary regulator of India's securities market, with a statutory mandate to protect investor interests, promote market development and regulate the securities market as a whole. Over the following three decades, SEBI issued a wide body of regulations governing listed companies, intermediaries and market conduct.

Two regulations are of particular contemporary significance. The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 require listed companies to adhere to corporate governance norms and periodic disclosure obligations; these were amended in 2025 to revise materiality thresholds for small and medium enterprises and to tighten disclosure norms concerning related-party transactions. The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 govern the issuance of securities through public offerings, rights issues and preferential allotments.

The most far-reaching reform under consideration is the Securities Markets Code Bill, 2025, introduced in Parliament in December 2025, which proposes to repeal and consolidate three parallel statutes — the Securities Contracts (Regulation) Act, 1956, the SEBI Act, 1992, and the Depositories Act, 1996 — into a single, principle-based legislative framework. The stated objective is to replace a fragmented, delegated-legislation-heavy structure with an integrated code that codifies principles of proportionality, separation of functions and due process. As part of this reform, it has also been proposed that SEBI's governing board be expanded from nine to as many as fifteen members, with representation from the Central Government, the Reserve Bank of India and other stakeholders, and with a majority of whole-time members.

V. RETAIL INVESTOR PARTICIPATION: TRENDS AND DRIVERS

The most visible transformation in the Indian securities market over the past six years has been the scale of retail participation. According to SEBI, the number of demat accounts in India rose from approximately 3.6 crore in 2019 to 19.4 crore by mid-2025, with total investor accounts on the NSE alone crossing

24 crore by November 2025. Over the same period, domestic institutional ownership of listed companies increased from 13 per cent to 20 per cent, while foreign portfolio ownership declined from 22 per cent to 17 per cent, indicating a discernible rebalancing of market ownership toward domestic participants.

Table I. Growth In Retail Participation, 2019–2025 (Source: Sebi / Nse Data)

Metric	2019	2025
Demat accounts (approx.)	3.6 crore	19.4–20 crore
Domestic institutional ownership	13%	20%
Foreign ownership	22%	17%

As of September 2025, individual investors — directly and through mutual funds — held 18.75 per cent of NSE-listed companies, the highest proportion in twenty-two years, while the Nifty 50 and Nifty 500 indices delivered five-year annualised returns of approximately 15 per cent and 18 per cent respectively . Maharashtra, Uttar Pradesh, Gujarat, West Bengal and Rajasthan together account for nearly half of all investor accounts, though growth has increasingly been driven by smaller towns and cities.

This expansion has been driven substantially by digital-first brokerage platforms. In the 2024–25 fiscal year, the NSE added 8.4 million new active demat accounts, of which more than 57 per cent came from two discount brokerages, Groww and Angel One , reflecting the role of low-cost, mobile-based trading applications, simplified Know-Your-Customer (KYC) procedures and improved IPO allotment processes in lowering the barriers to market entry for first-time investors, particularly younger investors in tier-2 and tier-3 cities.

VI. ALGORITHMIC TRADING AND TECHNOLOGICAL TRANSFORMATION

Algorithmic trading — the execution of trades through pre-programmed, rule-based computer instructions — was historically confined to institutional participants with access to direct market access and co-location facilities. In recent years, however, retail investors have increasingly automated their own trading through broker-provided application programming interfaces (APIs) and third-party platforms, often without any dedicated regulatory oversight of such tools.

To address the resulting risks of unregulated automation, SEBI issued a circular on 4 February 2025 establishing a framework for the safer participation of retail investors in algorithmic trading, which — after an implementation extension — took full effect on 1 August 2025 . The framework establishes a three-party structure comprising stock exchanges, brokers and registered algorithm providers, and requires every retail algorithm to receive exchange approval and a unique algorithm identifier before it may be deployed live. Algorithms are further classified into "white-box" strategies, whose logic is fully disclosed, and "black-box" strategies, whose internal logic remains proprietary but whose providers must register as research analysts and maintain detailed records.

These measures reflect a broader regulatory recognition that the democratisation of trading technology — including, prospectively, artificial-intelligence-driven strategies — must be accompanied by proportionate accountability mechanisms if market stability and investor protection are to be preserved alongside innovation.

VII. CHALLENGES AND RISKS

Despite this progress, the Indian securities market continues to face several structural challenges. First, the rapid pace of retail onboarding has outstripped the growth of financial literacy in many cases, raising concerns about investors' ability to assess risk in complex instruments such as derivatives and algorithmic strategies. Second, technology-related operational risk remains significant; notably, SEBI itself relaxed its technical-glitch reporting framework in late 2025, exempting a substantial proportion of smaller intermediaries from certain obligations and extending reporting timelines, a move that illustrates the ongoing calibration between regulatory rigour and market feasibility.

Third, the growth of unregulated "black-box" algorithmic products and the marketing of guaranteed-return schemes present continuing risks of market manipulation and investor harm. Finally, the transition envisaged under the Securities Markets Code, 2025 — while intended to simplify the regulatory architecture — will itself require careful transitional management to avoid regulatory uncertainty during implementation.

VIII. CONCLUSION AND FUTURE SCOPE

The Indian securities market has entered a period of significant structural change, marked by an ambitious legislative consolidation of its regulatory foundations, an unprecedented broadening of retail participation, and the extension of formal regulatory oversight to algorithmic trading. Taken together, these developments point toward a market that is simultaneously deepening — in terms of participation and instrument sophistication — and maturing, in terms of its regulatory architecture.

Future research could usefully examine the practical implementation and market impact of the Securities Markets Code once enacted, the long-term effect of algorithmic-trading regulation on retail investor outcomes, and the adequacy of investor-education initiatives relative to the pace of retail market entry. As India's capital markets continue to expand their share of global equity capitalisation, sustained attention to the balance between innovation, accessibility and investor protection will remain central to their orderly development.

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