

SEBI's Regulatory Overhaul - Strengthening Corporate Governance and Deepening Capital Markets

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SEBI's Regulatory Overhaul Latest News

- The SEBI, under Chairman Tuhin Kanta Pandey, has initiated a comprehensive review of several market regulations to enhance corporate governance, market efficiency, investor protection, and capital market depth.
- The reforms cover areas such as disclosure norms, delisting regulations, derivatives markets, independent directors, foreign investor access, AI governance, and debt market development.

Why is SEBI Reviewing Market Regulations?

- India's capital markets are expanding rapidly, driven by **technological innovation**, rising retail participation, and increasing global investor interest.
- To keep pace with evolving market realities, Securities and Exchange Board of India (SEBI) aims to:
 - Strengthen corporate governance standards.

- Improve transparency and disclosure mechanisms.
- Facilitate easier access for domestic and foreign investors.
- Enhance market liquidity and risk management.
- Support emerging sectors requiring long-term capital.
- Integrate technological advancements such as Artificial Intelligence (AI) into market regulation.

Review of Listing and Delisting Frameworks

- **Strengthening disclosure norms:** SEBI is reviewing the Listing Obligations and Disclosure Requirements (LODR) framework to make it more responsive to emerging governance, compliance, and disclosure challenges.
- **Reforming delisting regulations:**
 - The regulator is also reassessing the delisting framework to ensure that capital markets provide both:
 - Fair entry for companies seeking public capital.
 - Fair exit for firms wishing to delist.
 - This is expected to improve market efficiency and investor confidence.

Enhancing the Role of Independent Directors (IDs)

- **Beyond traditional oversight:**
 - SEBI emphasized that **IDs** must move beyond merely questioning management decisions.
 - Their responsibilities should include contributing to strategic discussions on AI; cybersecurity; Environmental, Social and Governance (**ESG**) issues; R&D; and technological disruptions.
- **Capacity building initiative:** To improve board effectiveness, SEBI plans to establish a scalable capacity-building network for IDs.
- **Protection of Minority shareholders:** IDs are expected to safeguard minority shareholder interests while promoting sustainable long-term value creation.

Other Proposals

- **Facilitating foreign investment:**
 - **Simplified KYC norms:** SEBI plans to simplify Know Your Customer (KYC) requirements for: Foreign Portfolio Investors (FPIs), and Non-Resident Indians (NRIs).
 - **Risk-based disclosure framework:** Disclosure requirements for foreign investors will be reviewed using a risk-based approach, providing greater clarity and ease of participation for global capital.
- **Deepening equity and derivatives markets:**
 - **Review of short selling and securities lending:**
 - SEBI is comprehensively reviewing Securities Lending and Borrowing (SLB) framework, and Short-selling regulations.
 - The objective is to strengthen linkages between **cash and derivatives markets**, improve liquidity, and facilitate better price discovery.
 - **Development of long-term derivative products:**
 - SEBI intends to encourage longer-duration futures contracts, and longer-term options contracts.

- This will broaden hedging opportunities and deepen market participation.
- **Bond index derivatives:** In collaboration with the Reserve Bank of India (RBI), SEBI plans to introduce derivatives based on bond indices, expanding the range of fixed-income market instruments.
- **Reforms in commodity derivatives:**
 - SEBI's proposals aim to improve participation and risk management through:
 - Extending early pay-in benefits to options contracts.
 - Reviewing position limits.
 - Gradual shift from cash settlement to physical settlement in selected agricultural commodity contracts.
 - These measures are expected to improve market integrity and efficiency.
- **Review of municipal debt and portfolio management regulations:**
 - SEBI is also reassessing regulations related to municipal debt instruments, and Portfolio Management Services (**PMS**).
 - The objective is to address operational challenges faced by stakeholders and ensure these frameworks continue to support market development.

Supporting Strategic and Emerging Sectors

- **Revamping the Innovators Growth Platform (IGP):**
 - SEBI is reviewing the Innovators Growth Platform to facilitate capital raising for high-growth sectors such as AI, semiconductors, clean energy, biotechnology, advanced materials, and defence technology.
 - The objective is to improve access to long-term financing for innovation-driven industries.
- **Development of debt markets:**
 - **Corporate bond market reforms:** SEBI is working on a market-making framework for corporate bonds, greater liquidity in debt markets.
 - **Municipal bond market expansion:** Efforts are underway to deepen the municipal bond market, enabling urban local bodies to access market-based financing for infrastructure development.
 - **Tokenization of corporate bonds:** SEBI is exploring tokenization of corporate bonds, reflecting the increasing role of financial technology in capital markets.
- **AI as a regulatory priority:**
 - **Opportunities:** AI can significantly improve market surveillance, fraud detection, risk assessment, and investor services
 - **Risks:** SEBI recognizes concerns relating to algorithmic opacity, bias, data privacy, cybersecurity, accountability
 - **Regulatory framework:** SEBI plans to issue detailed guidelines for the responsible use of AI in capital markets and integrate the International Organization of Securities Commissions (**IOSCO**) AI Supervisory Toolkit into its regulatory approach.

Conclusion

- SEBI's proposed reforms represent a **broad-based effort** to modernize India's capital market architecture.
- By combining governance reforms, market deepening measures, technological oversight, and easier investor access, the regulator seeks to create a more resilient, transparent, and globally competitive financial ecosystem.

Source: IE

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