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## STOCKBROKERS AND ITS REGULATIONS: AN ANALYSIS

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Aesha Roy, B.A.LL.B. (H), Amity University Kolkata

Adisri Roy, B.A.LL.B. (H), Amity University Kolkata

### ABSTRACT

Brokers are an invaluable asset to the economy as they assist traders to purchase and vend securities. They are heavily shielded by a set of regulations which aim to keep their operations accountable, safe, and clear, hoping to enhance trust and integrity. Here in this article, we will notice the primary duties of stock brokers, the institutions that monitor their activities and the laws that govern their operations. It also looks at the recent development in stock brokerage regulations, the effect of technology innovation and the strict enforcement measures. Investors and industry professionals need to understand these regulations in order to navigate the ever-changing world of financial markets.

**Keywords:** Stock brokers, securities, investors, regulations, financial market.

## INTRODUCTION

The client is responsible for investing in and trading in the securities, contracts, and other instruments that are permitted to be dealt with on the Exchanges as specified in the Exchanges' Byelaws and Regulations, the Securities and Exchange Board of India's (SEBI) rules, and any periodic notices or circulars issued under which. The client, stockbroker, and sub-broker are all subject to all exchange rules, bylaws, regulations, any circulars or notices issued under them, SEBI rules and regulations, and other pertinent government notifications that may occasionally be in effect.<sup>1</sup>

As opposed to investment advisers, brokers are as individuals providing the 'execution-only' services. Because of this role, they often fail to consider the fiduciary rules that are applicable to them by stating that they do not have the right in their client's decision-making.

Conversely, investment advisers help individuals and organizations concerning their plans and choices in financial activities. Financial planning and pension advice are often the areas that they help their clients with which often influence the trends in investment made by the market participants.<sup>2</sup>

To ensure that stock exchanges carry out their self-regulatory functions efficiently, SEBI was established. It has been mandatory and a duty of the brokers to get themselves registered and the stock exchanges must report on their operations. SEBI has been deemed to have taken up a monitoring role to ensure that no malpractices are occurring and to safeguard the investors. With the role of SEBI as a monitor, stock brokering has been increasingly considered as a professional service that meets the automated exchanges.

A stockbroker who is registered must follow the code of conduct about dealings, ensuring that the settlement of transactions is completed duly and safeguarding the interests of the clients.<sup>3</sup>

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<sup>1</sup> *Rights and Obligations of stock brokers, sub brokers and clients*, <https://resources.groww.in/wp-assets/documents/rights-and-obligations.pdf>

<sup>2</sup> Shantanu Dey, *Brokers and Investment Advisors- Addressing the Question of Fiduciary Standard in a Comparative Context*, 9 NUJS LAW REVIEW 291, 292 (2016)

<sup>3</sup> Dr. Jeelan Basha, *An Empirical Study on Analysis of Stock Brokers in Indian Market with Special reference Cash Market*, 4 SSRN 140, 140 (2014)

## REGULATORY FRAMEWORK GOVERNING STOCK BROKERS

Maintaining and regulating the stock market is crucial to ensuring transparency and safeguarding investors' interests because it is one of the main participants in the Indian financial sector. . Several pertinent legislations are passed that govern the functioning of the stock market and ensure that corporate ownership is fairly exchanged in the open markets. Some of the important statutes and regulations governing the stock market are as follows:-

### 1. Securities Contracts (Regulation) Act, 1956

Under the SCRA, SEBI has the authority to regulate contracts, revise exchange bylaws, and punish infractions to keep an eye on stock exchanges, brokers, and intermediaries. The Act also places a strong emphasis on protecting investors by requiring fair and open trading practices, guaranteeing that company information is disclosed, and punishing violations like price-rigging and insider trading. Additionally, all securities transactions must take place through approved exchanges because the SCRA forbids unlawful contracts, including unapproved forward trading. Additionally, it establishes rules for securities listing and delisting, guaranteeing that businesses enter or leave the stock market fairly.<sup>4</sup>

### 2. SEBI

Trading in the Indian stock market means that the investors as well as the stock brokers are required to abide by the rules and regulations so that their interests are protected and to maintain standardization and accountability. SEBI must ensure that every function within the ambit of the stock market is done by following the rules of SEBI which include the following-

- Regulation of capital market by SEBI
- Ensuring fairness and transparency in the stock market
- Promotes the establishment of self-regulatory organizations

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<sup>4</sup> Ms. Somya Jain, *Laws Governing the stock market in India*, *IPLEADERS* (Mar. 29, 2025, 10:28 A.M), <https://blog.ipleaders.in/laws-governing-the-stock-market-in-india/>

- SEBI establishes and manages a committee called the ‘complaints division’
- Ensures that brokers and financial advisors are registered.<sup>5</sup>

### 3. Companies Act, 2013

SEBI has incorporated several investor safety measures in place in order to ensure that the share transfer and allocation process is simple. A committee was set up under the Managing Director of Stock Holding Corporation, Shri R Chandrasekaran. A unique order code is given after every transaction by stock exchanges to ensure transparency. To prevent unfair execution and taking advantage of intra-day price movements, the time at which a client places an order has to be recorded and displayed by the stock brokers.

An agent of a broker who is registered with the stock market called the remise institution, is one of the pertinent measures taken by SEBI in order to regulate and control the sub-brokers. It is imperative for brokers to ensure that their clients refrain from acting as sub-brokers until they have been registered with SEBI or recognized as remises by the stock market.<sup>6</sup>

### LICENSING AND REGISTRATION OF STOCK BROKERS

To become a registered stock broker, the applicant must have to comply with the Section 3 of the Securities and Exchange Board of India (Stock brokers and Sub-brokers) Regulation, 1992<sup>7</sup>, which mainly deals with the process regarding the application for stock broker registration. According to this, the applicant had to fill out Form A in Schedule I and submit it to the Board via the relevant stock exchange to request a certificate of registration as a stock broker. After receiving the application form the Stock Exchange must forward it to the board as soon as possible, but not later than 30 days after receiving it. If it is required the board may request at its own discretion any additional information from the applicant or the appropriate stock exchange about settlement, trading or dealing in securities and any other matters to access the application for certificate issuance. After carefully examining the application, the Board will issue registration if they determine that all the requirements outlined in Regulation 5 have

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<sup>5</sup> MOTILAL OSWAL, <https://www.motilaloswal.com/learning-centre/2022/1/how-does-sebi-regulate-the-stock-market> (last visited Mar. 29, 2025)

<sup>6</sup> Suvarna Satpute, *Section 24 of Companies Act 2013*, REGISTERKARO (Mar, 29, 2015, 10:51 A.M) <https://www.registerkaro.in/post/section-24-of-companies-act-2013>

<sup>7</sup> Securities and Exchange Board of India (Stock Brokers & Sub-Brokers) Regulation, 1992, § 3, 1992 (India).

been met. Additionally, they will notify the stock market of the issue of certificate. The Board has 30 days to advise the applicant and the stock exchange of its decision if it determines that the information in the application is inadequate. The applicant must be given the opportunity to be heard before a final decision is made.<sup>8</sup>

### **Qualification Required to Register as a Stock Broker-**

The candidate must be qualified to join any stock market. The applicant must have the necessary infrastructure, such as a suitable office, equipment, and personnel, in order to carry out its duties as a Stock Broker License. Additionally, the applicant must have some relevant expertise trading securities and not be fresh to the company.

The applicant must have to satisfy the net worth and deposit requirements listed in Schedule VI. According to Rule 8 of the Securities Contracts (Regulations) Rules, 1957, the applicant must meet all eligibility requirements. This rule outlines the minimum director requirement, work experience requirements, and constitution types that are qualified to apply.<sup>9</sup>

### **OBLIGATIONS AND DUTIES OF STOCK BROKERS**

In order to maintain transparency, protection of investor interest and market integrity, stock brokers are bound by some obligations and duties. One of the important responsibilities of stock broker in order to start or commence with the business is to first register under SEBI and also under registered Stock Exchange. Then another duty of stock broker is to abide by all the legal responsibilities and to ethically conduct their business.

It is also the responsibility of the Stock Broker to ensure that within 24 hours of trade being executed they had to issue contract notes to maintain proper and accurate records of transaction. They must perform due diligence by following the Know Your Customer (KYC) guidelines and also in order to stop fraudulent transactions, they must ensure that the Prevention of Money Laundering Act must be followed. Another crucial duty of stock broker to disclose all the costs, fees related to broking and trade related risks especially in derivative markets. The Stock

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<sup>8</sup> Shreya Patel, Stock Broker License Registration, ENTERSLICE, (Mar. 26, 2025, 08.25 PM), [<https://enterslice.com/leraning/stock-broker-license-registration>]

<sup>9</sup> Shreya Patel, Stock Broker License Registration, ENTERSLICE, (Mar. 26, 2025, 08.25 PM), [<https://enterslice.com/leraning/stock-broker-license-registration>]

brokers also have to keep the money of their client in separate account in order to prevent theft.

Protecting the interest of investors is another important responsibility of stock broker and also in order to handle the customer dispute they must have a strong grievance redressal mechanism system. With the help of risk disclosure documents stock brokers have to inform their investor about the risk associated in market. Stock brokers must also have to abide by the Insider Trading rules under SEBI and to avoid unethical practices like market manipulation. To ensure compliance, they also have to make periodical disclosure to the SEBI and recognized stock exchanges. Together with all these above-mentioned responsibilities and duties it guarantees integrity in the securities market and also to promote investors trust and monetary stability.

## **INVESTOR PROTECTION AND GRIEVANCE REDRESSAL**

SEBI has periodically announced several strategies and actions to guarantee investor protection. It has created the Investor Protection Fund (IPF), issued multiple instructions, and led multiple investor awareness initiatives in order to reimburse investors.

The Securities and Exchange Board of India (SEBI) must protect investors and keep the securities market fair and open. In order to help investors make informed decisions, it regulates market participants, enforces legal obligations to prevent unethical activities like insider trading and market manipulation, and sets strict disclosure standards. Through financial literacy programs and awareness efforts, SEBI also places a high priority on investor education in order to empower retail investors.<sup>10</sup>

Investors can make complaints online against mutual funds, brokers, listed companies, and other market intermediaries through the SEBI Complaints Redress System, often known as SCORES. The Investor Protection Fund (IPF), which reimburses investors in the case of stockbrokers or companies going bankrupt, is also under the jurisdiction of SEBI. The regulator ensures accountability for brokers, registrars, and depositories by imposing strict licensing and operational criteria.

When any market player violates the rights of investors, SEBI takes enforcement action, which may include imposing fines or penalties or even kicking dishonest corporations out of the

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<sup>10</sup> Vinay Babbar, Investor Protection, 1, 2-4

market. In order to maintain the integrity of the Indian securities market and increase investor confidence, SEBI makes sure that all players are treated equally.<sup>11</sup>

In addition to these measures, SEBI has regulated mutual funds and portfolio managers to ensure that investors have access to a broad range of investment options and that these options are supervised by organisations with the necessary training and expertise. In order to encourage investors to make prudent investing decisions, SEBI has also started a variety of efforts to educate them about their rights and responsibilities. SEBI also has to address the need for closer collaboration amongst different regulatory bodies. The Reserve Bank of India and the Ministry of Corporate Affairs are two regulatory organizations with which SEBI must work closely to ensure that its regulations and policies are in line with the country's broader regulatory framework.<sup>12</sup>

The Securities Market Awareness Campaign was started by SEBI in 2003. These programs are now regularly held by SEBI to educate and increase investor awareness. The class. The course includes important topics such investor protection funds, mutual funds, tax laws, portfolio management, and investor grievance resolution. Additionally, it holds workshops on derivatives, stock exchanges, trade senex, and other topics. By using a variety of media, including print, radio, television, and the internet, SEBI has already held these courses in over 500 places nationwide.<sup>13</sup>

## RECENT AMENDMENTS REGARDING THE STOCK BROKERS

The Securities Exchange Board of India on 2024 amended the Securities and Exchange Board of India (Stock Brokers) Regulations, 1992<sup>14</sup>. The revised 2024 Regulations added Chapter IV A, which includes institutional protections against market manipulation and fraud prevention. The responsibilities of stock brokers and their staff are covered in the new chapter, along with internal control and trading activity surveillance systems. The new chapter contains escalation and reporting procedures that require the submission of a regular report to verify the efficiency and adequacy of the internal control systems, in addition to other provisions. The whistleblower

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<sup>11</sup> PAPERTYARI, <https://papertyari.com/finance/role-of-sebi-in-investor-protection-sebi-and-investor-protection/> (last visited Mar. 29, 2025)

<sup>12</sup> Krishna Bajpai, The Role of SEBI in Investor Protection and Market Development, READERS BLOG (Mar. 29, 2025, 11:09 A.M) <https://timesofindia.indiatimes.com/readersblog/krishna-legal-insights/the-role-of-sebi-in-investor-protection-and-market-development-52364/>

<sup>13</sup> P. Swathi & C.H Deepthi, *Role of SEBI in Investors Protection*, 3 IJAEM 521, 521 (2021)

<sup>14</sup> Securities and Exchange Board of India (Stock Brokers & Sub-Brokers) Regulation, 1992, 1992 (India).

policy requires the stock brokers to establish and maintain a private channel for employees and other interested parties to report fraudulent activities, unfair or unethical behaviours, etc.<sup>15</sup>.

Section 18F of the Securities and Exchange Board of India (Stock Brokers) (Amendment) Regulations, 2024, discusses internal control and trading activity surveillance systems. Accordingly, key managerial personnel, such as designated directors and individuals of other stock broker ranks, must monitor trading activities and internal control systems to identify and stop fraud or market abuse by its clients or employees to ensure compliance with all regulatory requirements as announced by SEBI or the stock exchange.<sup>16</sup>

Section 18H discusses about Escalation and reporting mechanisms which mandates that if the stock brokers detect any suspicious activity, they will inform the same to the stock exchange with all the details within forty-eight hours from such detection. It also mandates the stock brokers to submit a summary analysis to the stock exchanges regarding the suspicious activity, on a half-yearly basis. Any deviation from the internal controls, risk management, surveillance, or client onboarding policies, as well as the recommended remedial measures for such deviations, must be brought before the relevant Committee, Board of Directors, or other comparable or analogous bodies of the stock broker on a regular basis, as per sub-regulation (3) of this regulation. These deviations must also be included in the report that the stock broker must submit to the stock exchanges.<sup>17</sup> Section 18I requires the stock broker to establish and uphold a documented whistleblower policy that enables staff members and other interested parties to report suspected instances of unethical, unfair, or fraudulent behaviour, legal or regulatory infractions, or governance weaknesses.

## KETAN PAREKH SCAM

The Ketan Parekh Scam had a major effect on the Indian stock market in the late 1990s. Ketan Parekh was well-known in the financial sector. He operated a system that caused a market crash by altering stock prices. Parekh's group made significant trades in addition to having major clients like Rohit Salgaocar. Many people have serious issues as a result of this. The dispute revealed regulatory shortcomings and illustrated the necessity of more stringent market

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<sup>15</sup> SCC ONLINE, <https://www.scconline.com/blog/post/2024/07/02/securities-and-exchange-board-of-india-stock-brokers-amendment-regulations-2024-legal-news/> (last visited March. 29, 2025).

<sup>16</sup> Securities and Exchange Board of India (Stock Brokers) (Amendment) Regulation, 2024, § 18F, 2024 (India).

<sup>17</sup> Securities and Exchange Board of India (Stock Brokers) (Amendment) Regulation, 2024, § 18H, 2024 (India).

oversight.<sup>18</sup>

The Ketan Parekh scheme exposed regulatory weaknesses in stockbroker supervision and was one of the biggest stock market scandals in India. Stockbroker Ketan Parekh employed a tactic known as "pump and dump," whereby he manipulated the prices of a selected set of stocks, known as "K-10" stocks, by using circular trading and bank funding, namely from the Madhavpura Mercantile Cooperative Bank. Investors suffered massive losses when the market bubble burst in 2001 as a result of this.<sup>19</sup>

The securities and exchange board of India's (SEBI) inadequate supervision of stockbrokers and the banking sector's shoddy risk management were both uncovered by the crisis. SEBI responded by strengthening its laws, increasing the transparency of stockbroker activity, tightening margin requirements, and enhancing surveillance systems. Securities laws must be rigorously enforced to protect investors and prevent market manipulation, as the case demonstrated.<sup>20</sup>

## RECOMMENDATIONS

Regulating stock brokers in the securities sector still presents certain difficulties. To maintain openness and safeguard the interests of all parties involved, they and their operations must be regulated. Some suggestions are as follows-

- Strengthening compliance and license requirements
- Enhance Investor protection and transparency
- Implement Audit Mechanisms and robust surveillance methods

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<sup>18</sup> Bytes, *Understanding the Ketan Parekh Scam: In Depth Analysis*, LEMONN (Mar.29, 2025, 11:23 A.M) <https://lemonn.co.in/blog/bytes/uncovering-the-ketan-parekh-scam/>

<sup>19</sup> Khushboo Tiwari, *Ketan Parekh among 3 banned from securities market in front-running scheme*, BUSINESS STANDARD (Mar. 29, 2025, 11:26 A.M) [https://www.business-standard.com/markets/news/sebi-imposes-ban-on-ketan-parekh-2-others-for-alleged-front-running-scheme-125010200936\\_1.html](https://www.business-standard.com/markets/news/sebi-imposes-ban-on-ketan-parekh-2-others-for-alleged-front-running-scheme-125010200936_1.html)

<sup>20</sup> Shivendra Kumar, *Sebi bans Ketan Parekh, 2 others from markets in front-running scam, impounds Rs. 65 crores*, THE ECONOMIC TIMES (Mar. 29, 2025, 11:29 A.M) <https://economictimes.indiatimes.com/markets/stocks/news/sebi-bans-ketan-parekh-2-others-from-markets-in-front-running-scam-impounds-rs-65-crore/articleshow/116891317.cms?from=mdr>

- Enhance Data Protection and Cyber Security.<sup>21</sup>

## CONCLUSION

The securities industry's stockbrokers must be adequately regulated to provide transparency, investor protection, and market integrity. By implementing stringent licensing standards, bolstering monitoring systems, and enforcing cybersecurity measures, regulators can lower risks such as fraud, insider trading, and financial mismanagement. Strengthening whistleblower rights and promoting transparency through mandatory disclosures can further deter unethical behaviour. In order to address emerging problems such as market manipulation and technological advancements, regulatory frameworks must adapt continuously. Apart from safeguarding the interests of investors, a well-regulated brokerage system promotes confidence in the financial system, ultimately contributing to the establishment of a stable and efficient economic environment.<sup>22</sup>

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<sup>21</sup> Ms. Somya Jain, *Laws Governing the stock market in India*, IPLEADERS (Mar. 29, 2025, 10:28 A.M), <https://blog.ipleaders.in/laws-governing-the-stock-market-in-india/>

<sup>22</sup> Dr. Jeelan Basha, *An Empirical Study on Analysis of Stock Brokers in Indian Market with Special reference Cash Market*, 4 SSRN 140, 140 (2014)