Consultation Paper – Review of the SEBI (Stockbrokers) Regulations, 1992

Background

The Securities and Exchange Board of India (“**SEBI**”) has issued a consultation paper on August 13, 2025 (“**Consultation Paper**”), seeking public comments on its draft regulations to amend the SEBI (Stock Brokers) Regulations, 1992 (“**Stockbroker Regulations**”). To align the Stockbroker Regulations with contemporary market conditions and regulatory expectations, SEBI recognized the need for a comprehensive review and realignment of these regulations, which are discussed in brief below.

Proposed Changes

- ***New and Updated Definitions***
  - ‘Algorithmic Trading’: Introduction of a definition to mean any order generated/placed using automated execution logic.
  - ‘Execution Only Platform’ (EOP): To maintain books of account, records and documents and other requirements related to fees, deposit, net worth etc.
  - ‘Proprietary Trading’: To include trading conducted by a stockbroker in its own account.
  - ‘Clearing Member, Self-Clearing Member, Professional Clearing Member, Proprietary Trading Member': Definitions clarified, and redundancy removed.
  - Removal of ‘Small Investor’ Definition: Deleted as it is no longer relevant.
- ***Registration and Compliance Amendments***
  - Designated Director Requirement: At least one designated director of the Company must be a resident in India for 182 days or more during the financial year.
  - Material Change Notification: Brokers to promptly notify SEBI and exchanges of material change undergone during the process of registration apart from change in control.
  - Change in Control: Brokers to obtain prior approval from SEBI by way of an application through the exchange it is a member of.
- ***Operational Provisions***
  - Enabling Provision for Other Activities: Brokers may carry out other SEBI-approved activities including accessing NDS-OM for trading in government securities and securities market related activities in GIFT-IFSC.
  - Qualified Stock Broker (QSB) Criteria: QSB designation now based solely on quantifiable metrics (active clients, assets of clients with brokers, trading volumes, margins, proprietary trading), with compliance and grievance redressal scores removed from the criteria and further, high standards for governance, risk management, infrastructure, cybersecurity, and winding-down frameworks required for QSBs.

- Power to Relax Enforcement: SEBI granted explicit authority to relax strict enforcement under specified circumstances including, undue hardship, technical/procedural lapses, non-compliance beyond one's control.
- Calculation of the Variable Net-worth: Such calculation shall be prescribed through circulars from time to time.

▪ ***Strengthened Client Protection and Broker Responsibilities***

- Protection of clients – Availability of clients' funds at all times, adherence to allocation and segregation of collaterals at the client level and upstreaming of client funds.
- Codification of Circulars: Key compliance obligations, risk management, KYC, trade execution evidence, confidentiality, technology controls, dispute resolution codified.
- Grievance Redressal: brokers to resolve investor grievances within 21 calendar days.
- Prohibited Activities: Explicit prohibitions on fixed/guaranteed payment schemes, unauthorized collective investments, and cash acceptance from clients.

▪ ***Inspection, Recordkeeping, and Other Administrative Changes***

- Inspection by Exchanges and Joint Inspection: Clear provisions for both exchange-led and joint SEBI/exchange/depository inspections.
- Maintenance of Records: Permit electronic maintenance of books and records; removal of outdated requirements tied to physical instruments and sub-brokers.
- Reporting/Audit: Alignment of reporting requirements so brokers report through exchanges rather than direct to SEBI in many cases.

▪ ***Updates to Schedules and Code of Conduct***

- Forms and Undertakings: Elimination of redundant/duplicative information collection in registration forms and undertakings; fit and proper conditions streamlined.
- Code of Conduct: Outdated and redundant provisions moved, deleted, or aligned with existing Investment Advisor and Research Analyst Regulations.
- Fee Schedule Corrections: Removal of references to historical years, sub-brokers, and obsolete transitional arrangements.

ELP Comments

The constant need to keep up with technology, curb novel forms of loopholes in the business operations and to ensure the core aim of SEBI, i.e., Investor Protection – the proposed amendments and insertions would help the MIIs ensure better supervision of the markets and the stockbrokers. Bringing in the amendments that are at various times clarified only through enforcement proceedings shall reduce the multiplicity of proceedings and challenges faced by SEBI thereafter.

The revamp is timely, reflecting three decades of change in India's capital markets. Simplified, streamlined rules should reduce compliance costs for brokers and enhance regulatory clarity. Consolidating circular-based requirements into the main regulations centralizes obligations and cuts administrative burden. Overall, the proposals modernize, clarify, and strengthen the framework for stockbrokers, aligning with technological advances, market evolution, and priorities of investor protection and stability.

Submission of Comments- Public comments are sought on the aforesaid draft circular. The comments can be submitted latest by September 02, 2025, to SEBI vide the link as provided on SEBI's website.

We hope you have found this information useful. For any queries/clarifications please write to us at *insights@elp-in.com* or write to our authors:

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