

Recent developments in India's corporate & commercial laws

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Monthly Newsletter
January 2026



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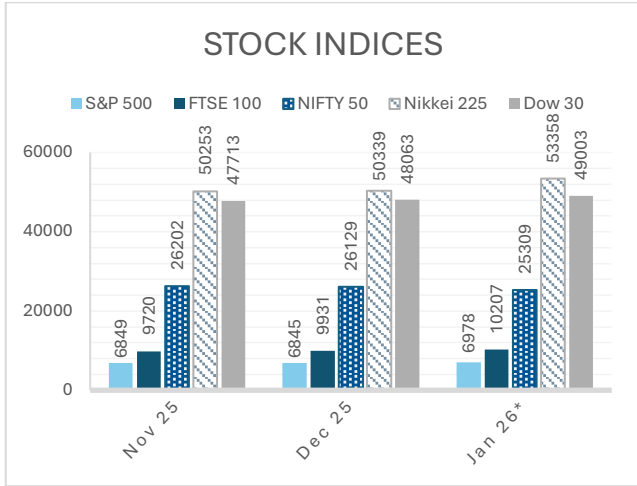
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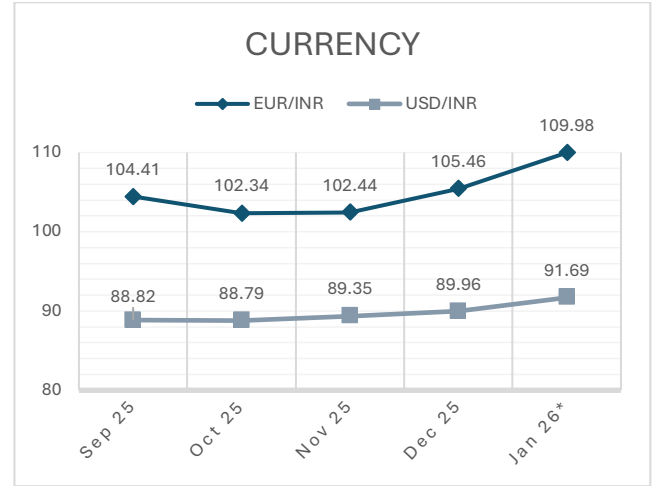
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Indian economy | January 2026

Snapshot of key indicators



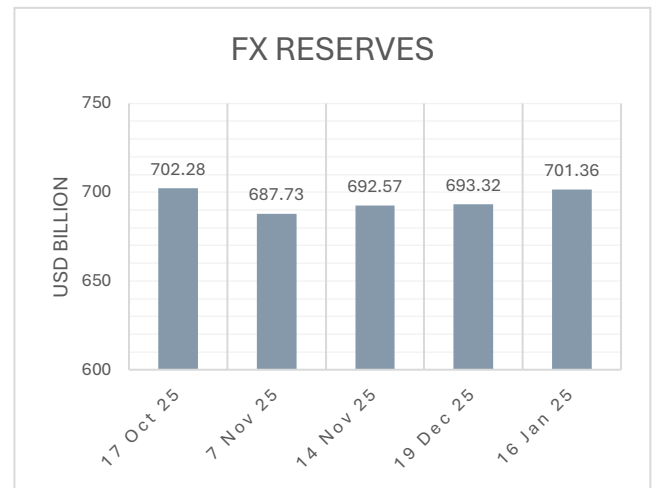
Source: S&P Dow Jones, FTSE Russel, NSE, and Nikkei



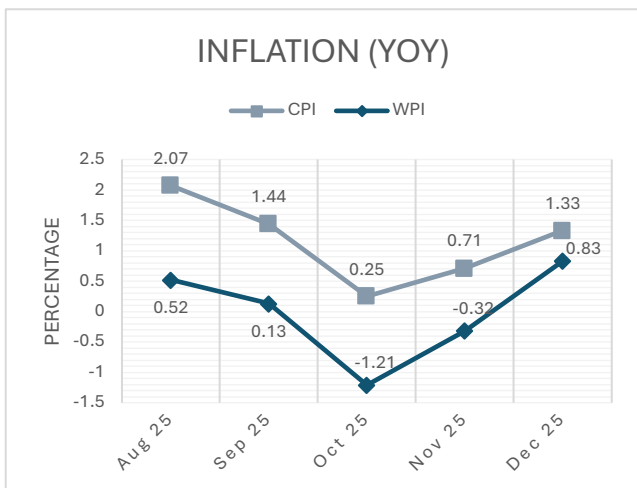
Source: Reserve Bank of India



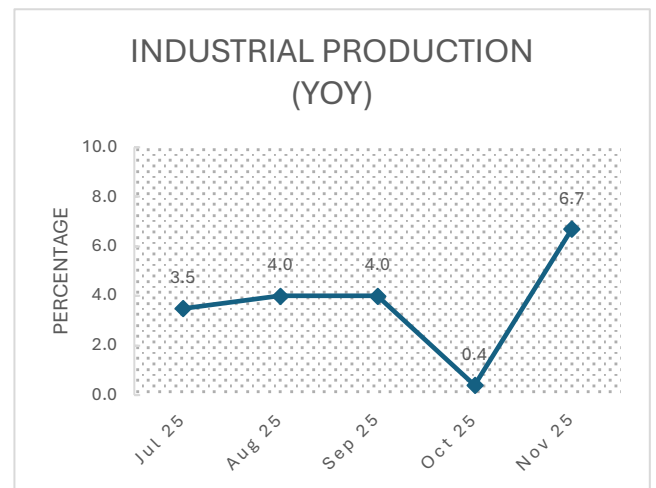
Source: Ministry of Commerce and Industry



Source: Reserve Bank of India



Source: Ministry of Statistics and Programme Implementation



Source: Ministry of Statistics and Programme Implementation

* As per the latest available data for January 2026

Overhaul of the securities market regulatory framework

The Securities Markets Code, 2025

Introduced by the Ministry of Finance, the Securities Markets Code, 2025 ([Code](#)) represents a comprehensive overhaul of securities regulatory framework as it repeals and replaces the Securities and Exchange Board of India ([SEBI](#)) Act, 1992, the Depositories Act, 1996, and the Securities Contracts (Regulation) Act, 1956, together with the subordinate legislation and notifications issued under them. The Code is yet to receive the President's assent.

The Code restructures the regulatory architecture governing securities markets by introducing principled rule-making, procedural discipline in enforcement, calibrated decriminalisation, and enhanced investor protection mechanisms, while simultaneously enabling regulatory responsiveness to technological innovation and cross-border capital flows.

Key proposed highlights

- [Enforcement framework](#)
 - A central reform under the Code is the codification of time-bound enforcement. Section 13(2) requires inspections and investigations to be completed within 180 days, with extensions permitted only by a reasoned order of a whole-time member of the SEBI.
 - Section 16 prescribes an outer limitation period of 8 years from the date of the alleged contravention for initiating inspection or investigation, subject to exceptions in cases involving systemic risk.
 - Section 17(2) introduces functional separation within SEBI by prohibiting officers involved in inspection or investigation from acting as adjudicating officers in the same matter. This statutory separation reinforces principles of natural justice and addresses concerns of institutional bias.
 - Interim directions issued under Section 27 are subject to temporal limits, remaining in force for a maximum of 180 days unless extended in accordance with the procedure prescribed therein.
- [Decriminalisation and proportionate penalisation](#)
 - The Code substantially recalibrates the enforcement philosophy governing securities violations. Chapters XII and XIII prioritise civil penalties for procedural and technical defaults, reserving criminal liability for serious misconduct such as market abuse and wilful non-compliance with regulatory directions.
 - Section 111 requires adjudicating officers to determine penalties having regard to specified statutory factors, including the amount of disproportionate gain, loss caused to investors, repetitive nature of the default, and impact on the integrity of the securities market. This provision introduces proportionality as a binding statutory standard rather than a discretionary consideration.
 - Sections 92 and 93 draw a clear distinction between 'fraudulent or unfair practices' and 'market abuse', with the latter attracting enhanced regulatory and penal consequences. This classification enables differentiated enforcement calibrated to the gravity of misconduct.
 - The Code mirrors the United States Securities and Exchange Commission's ([SEC](#)) approach, which relies primarily on tiered civil monetary penalties and disgorgement for most violations, referring only egregious cases (e.g., fraud or manipulation) for criminal prosecution. Similarly, the United Kingdom Financial Conduct Authority ([FCA](#)) uses a calibrated civil penalty regime for market abuse and unfair practices, factoring in harm, deterrence, and repetition, supplemented by criminal action for intentional misconduct.
 - While the Code's statutory proportionality factors enhance predictability and reduce over-criminalisation, strong safeguards will be key to matching the judicial oversight seen in these mature jurisdictions.
- [Definition and scope](#)
 - The regulatory scope of the Code is anchored in its expanded definitional framework. Section 1 of the Code extends its application to the regulation of securities markets as a whole, encompassing issuance, trading, clearing, settlement, and associated market services.
 - Section 2(zi) defines 'securities' to include not only shares, debentures, and government securities, but also derivatives, units of pooled investment vehicles, electronic gold receipts, capital-raising instruments, and 'other regulated instruments' notified in consultation with the appropriate regulator. This provision directly addresses regulatory gaps that previously arose in respect of innovative financial instruments.
- [Statutory consolidation](#)
 - Section 152 of the Code expressly repeals the 3 erstwhile principal securities statutes, while preserving actions taken, rights accrued, and proceedings initiated under the repealed enactments.
 - This consolidation eliminates parallel regulatory regimes and places all substantive and procedural rules within a single statutory framework.
- [Market actors and regulatory obligations](#)
 - The Code introduces new regulatory categories to rationalise supervision. Section 2(w) defines 'market participant' to include issuers and investors, while section 2(zk) defines 'Securities Markets Service Providers' ([SMSPs](#)) to cover intermediaries, market infrastructure institutions, and self-regulatory organisations.
 - Obligations imposed on SMSPs include duties of fair disclosure, segregation of client funds, prudent management of conflicts of interest, and compliance with conditions of registration. By imposing baseline statutory obligations across service providers, the Code reduces regulatory asymmetry and facilitates consolidated oversight.

- [SEBI's powers](#)
 - The Code continues SEBI as the statutory regulator while expanding the composition of its Board and strengthening governance norms. Section 8 imposes disclosure and recusal obligations on Board members in cases of conflict of interest.
 - A significant institutional reform is introduced through Sections 11(2)(x) and 11(3), which require SEBI to conduct regulatory impact assessments and periodic reviews of its regulations. This embeds evidence-based regulation within the statutory framework. The Code also recognises regulatory sandboxes and research-based interventions, facilitating innovation-friendly supervision.
- [Investor protection](#)
 - Investor protection is accorded explicit statutory recognition. Sections 71 and 72 mandate the formulation of an Investor Charter and establishment of a formal grievance redressal mechanism applicable to SEBI and SMSPs.
 - Section 73 revives the ombudsperson mechanism, enabling investors to seek independent redress where grievances remain unresolved within prescribed timelines. This provision strengthens access to remedies while preserving the separation between grievance resolution and enforcement proceedings.
- [Capital raising](#)
 - Chapter VIII consolidates provisions governing public issues, listings, de-listings, and disclosure obligations, providing issuers with a unified statutory pathway for capital raising.
 - The Code also harmonises the regulation of government securities and corporate debt instruments, supporting the development of fixed-income markets.
- [Cross-border coordination](#)
 - Chapter XV provides a statutory framework for coordination between SEBI and other regulatory authorities, including information sharing and joint action in matters involving cross-border transactions and interconnected financial products.

The Code represents a paradigmatic shift in Indian securities regulation, seeking to balance market development with regulatory discipline. The emphasis on regulatory sandboxes and inter-agency coordination positions India to better integrate with global financial systems, potentially attracting more foreign investment amid rising cross-border flows.

While ambitious, transitioning from 3 legacy acts to a unified framework will require extensive subordinate legislation and capacity building of SEBI and market participants. Concerns include potential regulatory overlaps (e.g., with Reserve Bank of India on derivatives), risks of excessive delegation to SEBI without matching accountability, and challenges in enforcing functional separation between investigation and adjudication. As such, a successful rollout will require market participants to adapt to the decriminalised, tech-responsive framework, ensuring that investor confidence remains high in an increasingly digitised economy, an exercise that goes beyond legislative streamlining. Ultimately, the new framework's effectiveness will depend on subordinate legislation and its implementation.

MCA revises the definition of 'small company' under the Companies Act, 2013

Companies (Specification of definition details) Amendment Rules, 2025

On December 1, 2025, the Ministry of Corporate Affairs (MCA) amended the Companies (Specification of definition details) Rules, 2014 (Rules), substantially enhancing the financial thresholds for a 'small company' under Section 2(85) of the Companies Act, 2013 (Act).

Pursuant to the revised framework, a private company will qualify for small company status if its:

- Paid-up share capital does not exceed INR 10 crore.
- Turnover, as reflected in the immediately preceding financial year, does not exceed INR 100 crore.

Both conditions must be satisfied cumulatively. This represents a marked departure from the earlier thresholds of INR 4 crore and INR 40 crore, respectively, which had increasingly failed to reflect contemporary business scales and inflationary realities.

The amendment is in alignment with the commercial reality for a wide range of businesses operating at an intermediate scale, particularly start-ups, and closely held entities that have scaled their operations without transitioning into large or publicly held corporate structures, which would now be eligible for the following benefits:

- [Fewer mandatory board meetings](#): A small company is required to hold a minimum of 2 board meetings every year, as opposed to the 4 meetings mandated for other companies.
- [No cash flow statement needed](#): Small companies are not mandated to frame the cash flow statement as part of the financial statement.
- [Lesser penalties](#): The penalties imposed on a small company are significantly lower than those on other companies.

The amendment does not lower corporate governance standards; instead, it acknowledges that the level of regulatory burden should correspond to a company's scale, operational complexity, and potential regulatory impact.

From a regulatory perspective, the MCA should periodically review these thresholds, as the expanded definition may result in a large number of companies qualifying as 'small companies' despite substantial capital growth, which could reduce the level of regulatory supervision that would otherwise apply. In such cases, reclassification as non-small companies may be warranted.

Nuclear energy is now open to the private sector

Sustainable Harnessing and Advancement of Nuclear Energy for Transforming India Act, 2025

The Sustainable Harnessing and Advancement of Nuclear Energy for Transforming India Act, 2025 (**Act**) is a comprehensive overhaul of the statutory framework governing civil nuclear energy in India. The Act replaces the erstwhile regime under the Atomic Energy Act, 1962 and the Civil Liability for Nuclear Damage Act, 2010, which together have historically confined nuclear power generation and related activities to the public sector.

Key highlights

- **Private sector participation:** The Act opens the civil nuclear power sector to participation by Indian private companies and joint ventures, subject to licensing and regulatory oversight. The existing statutory restriction limiting nuclear power generation to government-owned entities has been removed, enabling private entities to undertake activities relating to the establishment, operation, and decommissioning of civil nuclear power plants. Participation by private entities remains subject to eligibility criteria, safety requirements, and compliance with safeguards prescribed under the framework.
- **Foreign Direct Investment (FDI):** FDI of up to 49% within the Government route has been allowed in the civil nuclear sector, as opposed to the erstwhile mandate set by the Consolidated FDI Policy by the Department for Promotion of Industry and Internal Trade (DPIIT), prohibiting all FDI.
- **Licensing:** The Act provides a consolidated licensing mechanism governing civil nuclear installations across their lifecycle, including site approval, construction, commissioning, operation, and decommissioning. The framework also empowers the Central Government to issue binding directions to licensees in matters concerning public safety, national security, and emergency response, including during nuclear or radiological incidents.
- **Liability and compensation:** A significant component of the legislation relates to the restructuring of the civil nuclear liability regime. The Act retains operator liability as the primary basis for compensation in the event of nuclear damage, while recalibrating liability exposure through the introduction of statutory caps linked to the nature and capacity of nuclear installations. The framework also provides exclusion from liability in specified circumstances, such as incidents arising from armed conflict or extraordinary natural events, and envisages the continuation of insurance and risk-pooling mechanisms to address claims exceeding the operator's liability limit.
- **Exclusive public sector functions:** While proposing to liberalise civil nuclear power generation, the Act draws a clear distinction between civil and strategic nuclear activities. Strategic functions such as the mining of prescribed nuclear minerals, enrichment and reprocessing of nuclear fuel, and long-term management of high-level radioactive waste remain under exclusive government control.
- **Inventions:** The framework facilitates the deployment of advanced nuclear technologies by clarifying regulatory pathways for new reactor designs, including small modular reactors, subject to technology-specific safety assessments and approvals.

The overall structure of the Act reflects an attempt to combine private sector participation and investment with continued State oversight over safety, security and sensitive components of the nuclear fuel cycle. Once in effect, the legislation will mark a structural shift in the regulation of civil nuclear energy in India by introducing a unified statutory framework that enables private participation under defined licensing, liability, and regulatory safeguards.

Merchant banking regulations undergo significant reforms

SEBI (Merchant Bankers) (Amendment) Regulations, 2025

Effective as of January 3, 2026, the Securities and Exchange Board of India (SEBI) (Merchant Bankers) (Amendment) Regulations, 2025 (2025 Regulations) mark the first comprehensive overhaul of the merchant banking regulatory framework since their original introduction in 1992.

In a decisive shift from a purely registration-driven approach towards a framework grounded in risk-based supervision, capital strength, and functional relevance, the 2025 Regulations ensure that merchant bankers are not merely registered entities, but active, well-capitalised, and accountable market intermediaries. At their core, the reforms seek to reinforce the long-recognised 'gatekeeper' role of merchant bankers in an increasingly sophisticated capital market ecosystem, where intermediaries are expected to demonstrate enhanced diligence, independence, and financial resilience.

- **Rationale and regulatory philosophy:** SEBI's reform agenda is shaped by various considerations:
 - The scale and complexity of capital market transactions, particularly public issues, takeovers, and structured offerings, have expanded significantly, increasing the systemic importance of merchant bankers.
 - The earlier framework permitted a wide range of ancillary activities, which over time gave rise to conflicts of interest and regulatory overlap.
 - Capital adequacy norms had remained unchanged for nearly 3 decades, reducing their effectiveness as a prudential safeguard.
- **Liquid Net Worth (LNW)**
 - The 2025 Regulations introduce LNW, a new requirement under Regulation 7A, aimed at ensuring immediate solvency and operational resilience, rather than mere book solvency. Merchant bankers are now required to maintain at least 25% of their minimum net worth in unencumbered liquid assets. Permissible liquid assets are narrowly defined to include cash, fixed deposits, government securities, treasury bills, and money market instruments.
 - Failure to maintain the prescribed LNW results in an automatic restriction on undertaking fresh permitted activities until compliance is restored, reinforcing the prudential character of the revised regime.
- **Tiered categorisation:** The 2025 Regulations introduce a bifurcated categorisation structure based on capital strength. Existing merchant bankers are required to reclassify themselves within a 2-year transition period, during which they must progressively enhance their capital base to meet the applicable thresholds (previously INR 5 crore net worth):
 - **Category I merchant bankers:** Category I is reserved for institutionally robust intermediaries with a minimum statutory net worth of INR 50 crore and an LNW of INR 12.5 crore. Entities falling within this category are authorised to undertake the full spectrum of permitted merchant banking activities, including acting as lead managers for equity public issues proposed for listing on the main board of recognised stock exchanges.
 - **Category II merchant bankers:** Category II entities must maintain a minimum statutory net worth of INR 10 crore and an LNW of INR 2.5 crore. This category is designed for boutique firms and intermediaries specialising in SMEs and niche capital market transactions. Merchant bankers may manage rights issues, buybacks, SME IPOs, and other permitted activities; however, they are expressly prohibited from managing equity public issues intended for main board listing.
- **Underwriting exposure cap**
 - The 2025 Regulations cap the total underwriting obligations at 20 times the merchant banker's LNW, replacing the earlier unrestricted regime, ensuring commitments remain proportionate to liquid resources, curbing over-leveraging, and complementing the LNW requirement. Complete compliance is required by January 2, 2028.
- **Permitted activities and the Separate Business Unit (SBU) framework**
 - **Permitted activities:** The simplicitor embargo on merchant bankers under Regulation 13A prohibiting business outside the securities market has been replaced with an exhaustive list of permissible activities focused on the core lifecycle of securities issuance and corporate actions, including the management of public issues, rights issues, takeovers, buybacks, delistings, schemes of arrangement, private placements of listed or proposed-to-be-listed securities, management of international offerings, filing of placement memoranda for alternative investment funds, and the issuance of fairness opinions.
 - **Exclusion of valuation services:** In alignment with the valuation framework under the Companies Act, 2013, valuation services have been removed from the direct scope of merchant banking activities. Such assignments must now be undertaken exclusively by independent registered valuers, thereby reducing potential conflicts of interest.
 - **SBU framework:** Where merchant bankers undertake activities regulated by other financial sector regulators, such as the Reserve Bank of India (RBI) or the Insurance Regulatory and Development Authority of India (IRDAI), or engage in non-core advisory services, the amended regulations require such activities to be conducted through SBUs. The SBU framework mandates in-substance segregation through distinct teams, governance structures, and reporting lines, thereby ring-fencing the merchant banker's net worth from risks associated with unrelated business lines.

- **Prohibited mandates:** To further strengthen market integrity, the 2025 Regulations introduce a set of enhanced governance and independence standards:
 - Merchant bankers are prohibited from lead-managing any public issue where their directors, key managerial personnel, or relatives hold more than 0.1% of the issuer's paid-up share capital or shares with a nominal value exceeding INR 10 lakh.
 - Merchant bankers are now also expressly barred from managing their own public issues, reinforcing the principle of structural independence.
- **Enhanced PQE**
 - The Principal Officer must possess at least 5 years' experience in financial markets.
 - The Compliance Officer must be a qualified Company Secretary or hold a law degree, supported by a minimum of 2 years of post-qualification experience in corporate or secretarial compliance.
- **Operational resilience and the active player doctrine**
 - To prevent the proliferation of dormant or nominal registrations, merchant bankers are now required to generate a minimum cumulative revenue from permitted activities, failing which their registration may be cancelled.
 - Further, to ensure that accountability for critical regulatory responsibilities remains firmly with the licensed entity, SEBI has expressly identified certain core merchant banking functions – most notably due diligence and the preparation of offer documents – as non-outsourcable activities.
- **Data preservation**
 - The amended framework further mandates that all data, records, and documents relating to merchant banking activities be stored within India and preserved for a minimum period of 8 financial years, strengthening regulatory oversight and addressing data security and national interest concerns.

The 2025 Regulations, effective amid a surge in Initial Public Offerings (IPOs), Small and Medium Enterprise (SME) listings, and complex offerings, aim to weed out dormant or undercapitalised players, reduce conflicts, and bolster investor protection while supporting market growth. It reflects SEBI's acknowledgement that the earlier regime, designed for a smaller and less complex securities market, had gradually become misaligned with present-day realities. By embedding capital resilience, functional specialisation, governance discipline, and operational relevance into the regulatory architecture, SEBI has sought to enhance both the quality and credibility of merchant banking in India. Successful implementation will depend upon phased compliance, industry adaptation during transition periods, and SEBI's monitoring to prevent unintended consolidation or reduced competition, ultimately fostering a more robust and trustworthy primary market ecosystem.

A housing society cannot intervene in the developer's insolvency

Proceedings at the stage of admission into CIRP are *in personam*

In January 2026, the Supreme Court of India held that a housing society representing flat purchasers had no right to intervene in the insolvency proceedings of the developer.¹

The dispute arose from an INR 70 crore project loan assigned to Edelweiss Asset Reconstruction Company Ltd (EARCL). After the developer defaulted on repayments, EARCL filed an application under Section 7 of the Insolvency and Bankruptcy Code (Code) to initiate the Corporate Insolvency Resolution Process (CIRP). A significant issue concerned a cooperative housing society representing about 189 homebuyers in the project, which sought to intervene at the stage of admission. The society argued that homebuyers are recognised as 'financial creditors' under the Code and that insolvency proceedings would seriously affect their rights to possession and registration of their flats.

The Supreme Court rejected the society's intervention. It clarified that while individual homebuyers are financial creditors, a housing society or residents' association is a separate legal entity and does not become a financial creditor merely because its members are. Unless the society itself has lent money or is formally recognised as an 'authorised representative' under the Code framework, it has no standing to participate in the insolvency proceedings.

Further, the Court drew a sharp distinction between stages of insolvency:

- Before admission into CIRP, proceedings are *in personam* (only between the concerned creditor and the corporate debtor)
- After admission, they become *in rem* (affecting all creditors collectively), at which point individual homebuyers can file claims and participate through statutory mechanisms such as authorised representatives on the Committee of Creditors.

The Court held that the NCLAT's inherent powers cannot be used to override the structured process created by the Code or to grant participatory rights where the statute does not provide them. At the same time, the Court acknowledged the vulnerability of homebuyers in real estate insolvencies and reaffirmed that the Code is intended for resolution and revival, not merely debt recovery. It issued prospective directions requiring greater transparency, including mandatory disclosure of complete allottee details in insolvency information memoranda, written reasons where possession is not granted to buyers, and reasoned justification if liquidation is recommended.

¹ Elegna Co-Operative Housing and Commercial Society Ltd v. EARCL, Civil Appeal No. 10261 of 2025

Recalibration of targets, tighter on-lending oversight, and enhanced precision in credit computation for Priority Sector Lending

Priority Sector Lending – Targets and Classification (Amendment) Directions, 2026

The Reserve Bank of India (RBI) has amended the Priority Sector Lending (PSL) – Targets and Classification Directions, 2025, seeking to align the PSL framework with recent regulatory developments, clarify operational ambiguities, and recalibrate lending targets across different categories of banks (Amendment).

Key changes and clarifications

- [Inclusion of the National Cooperative Development Corporation \(NCDC\)](#)
 - A significant change introduced by the Amendment is the inclusion of the NCDC within the ambit of priority sector on-lending.
 - Loans extended by banks to NCDC will now qualify as PSL.
 - The move is aimed at expanding institutional credit to cooperative societies, particularly in agriculture and allied activities.
 - To address potential misuse, RBI has simultaneously strengthened compliance, reporting and audit safeguards applicable to such on-lending arrangements.
- [Clarifications on the computation of Adjusted Net Bank Credit \(ANBC\)](#)
 - The Amendment refines the methodology for computing ANBC, including clarification on the treatment of exemptions linked to long-term infrastructure bonds and affordable housing bonds.
 - A detailed computation formula for incremental advances arising from Foreign Currency Non-Resident (Bank) and Non-Resident External (NRE) deposits has been prescribed, enhancing consistency and uniformity in reporting across banks.
- [Enhanced governance and oversight of on-lending arrangements](#)
 - To reinforce end-use accountability in on-lending structures, Non-Banking Financial Companies (NBFCs), Housing Finance Companies (HFCs), and the NCDC are now required to furnish auditor certifications confirming that the end-use of funds qualifies as priority sector lending.
 - The bank loans to NCDC will qualify as PSL only upon quarterly certification by the Comptroller and Auditor General of India (CAG) empanelled auditors.
 - The aggregate exposure cap for on-lending to NBFCs, HFCs, and NCDC continues to remain at 5% of the previous year's PSL.
- [Revised exposure norms and recalibration of bank-level targets](#)
 - **Small Finance Banks (SFBs):** Target reduced to 60% of ANBC (from 75%).
 - **Regional Rural Banks (RRBs):** Lending to medium enterprises, social infrastructure and renewable energy capped at 15% of ANBC.
- [Formal codification of the PSL Certificate \(PSLC\) framework](#)
 - 4 PSLC categories have been specified: Agriculture, small and marginal farmers, micro enterprises, and general.
 - Banks may issue PSLCs up to 50% of their previous year's PSL achievement without holding the underlying assets, provided they meet year-end targets.
 - All PSLCs will expire on March 31 of the relevant financial year.

The Amendment underscores RBI's continued emphasis on accurate credit computation, strengthened governance of on-lending arrangements, and enhanced supervisory oversight, while ensuring that PSL compliance reflects genuine credit flow to intended beneficiaries. By tightening audit requirements, refining credit computation standards, rationalising targets, and formalising the PSLC framework, the RBI has reinforced that PSL compliance must be anchored in substantive credit delivery rather than form-based fulfilment.

Modernising the stock broker regulatory framework

SEBI (Stock Brokers) Regulations, 2026

Effective from January 7, 2026, the long-standing Securities and Exchange Board of India (SEBI) (Stock Brokers) Regulations, 1992, have been repealed and replaced by the SEBI (Stock Brokers) Regulations, 2026 (Regulations), marking a fundamental overhaul of the erstwhile regulatory framework governing stock brokers and clearing members in India's securities market. The Regulations aim to align the broking regulatory framework with contemporary market practices, enhance operational flexibility, strengthen governance and compliance, and balance investor protection with ease of doing business.

Key changes

- **New consolidated regulatory architecture:** The Regulations consolidate the framework relating to the registration, eligibility, operations, obligations, and responsibilities of stock brokers and clearing members. By replacing decades-old provisions with a streamlined and modern framework, SEBI has simplified the regulatory language and removed obsolete provisions that no longer reflect current market dynamics.
- **Registration norms and eligibility criteria:** Under the new regime, entities wishing to act as stock brokers must apply for registration through a recognised stock exchange, accompanied by prescribed fees and meeting eligibility criteria. SEBI may grant or refuse certification of registration based on compliance with statutory requirements.
- **Expanded material change reporting:** The scope of mandatory disclosures to SEBI has been significantly expanded. Brokers are now required to promptly inform the regulator of material changes, including changes in control, designated directors, key managerial personnel, compliance officer, firm name or registered office, net worth falling below prescribed minimums, and failure to meet the 'fit and proper' criteria.
- **Robust compliance infrastructure:** Every broker must appoint a compliance officer responsible for monitoring regulatory compliance, overseeing investor grievance redressal, and making immediate reports of breaches to the recognised stock exchange. The Regulations also mandate maintenance of essential records, including transaction books, client ledgers, margin and collateral registers, and observance of confidentiality and cybersecurity frameworks.
- **Client funds and asset safeguards:** Brokers must segregate and protect client funds and securities, ensuring these are never misused. Risk management systems and internal controls must be established to safeguard client assets and meet audit requirements.
- **Code of Conduct:** A comprehensive Code of Conduct has been embedded to uphold integrity, fairness, due care and investor interests. Brokers are prohibited from engaging in manipulative or deceptive activities, and conflicts of interest must be disclosed where unavoidable.

- **Flexibility to undertake other regulated activities:** For the first time, SEBI has allowed stock brokers to undertake other regulated financial activities, such as those under Reserve Bank of India (RBI), Insurance Regulatory and Development Authority of India (IRDAI), Pension Fund Regulatory and Development Authority (PFRDA), and International Financial Services Centres Authority (IFSCA) frameworks, subject to compliance under the respective regulatory regimes. This structural flexibility is expected to support diversified financial services delivery.

SEBI's introduction of the Regulations signals a strategic shift towards a modern, enforceable, and transparent regulatory ecosystem, balancing investor protection with operational flexibility for market intermediaries.

SEBI approves a regulated public InvIT model for national highway assets

NHAI's Raajmarg Infra Investment Trust

The National Highways Authority of India (NHAI) has secured regulatory approval from the Securities and Exchange Board of India (SEBI) for the establishment of the Raajmarg Infra Investment Trust (RIIT), marking a significant milestone in the Government's ongoing asset monetisation strategy for national infrastructure, aimed at unlocking value from existing infrastructure resources.

The RIIT has been structured as a public Infrastructure Investment Trust (InvIT), a collective investment vehicle designed to pool long-term capital from a wide range of investors, including retail participants, for infrastructure assets. SEBI's approval permits RIIT to operate as a regulated investment trust, enabling investors to hold units in the trust and share in the returns generated by the underlying highway assets.

NHAI has set up Raajmarg Infra Investment Managers Pvt Ltd (RIIMPL) as the investment manager for the trust. The investment manager has been constituted as a collaborative venture with equity participation from a consortium of leading Indian financial institutions and banks, including State Bank of India, Punjab National Bank, NaBFID, Axis Bank, Bajaj Finserv Ventures Ltd., HDFC Bank, ICICI Bank, IDBI Bank, IndusInd Bank, and Yes Bank. This diversified institutional backing underscores the strategic intent to create a robust and professionally managed vehicle for long-term infrastructure investment.

InvITs, regulated by SEBI, serve as institutionalised vehicles to channel long-term capital into critical public infrastructure sectors, often attracting investors who seek stable, yield-oriented assets. The step is expected to facilitate a more diversified investor base, strengthen the financing ecosystem for infrastructure development, and deepen domestic retail investor participation.

Formalisation of the shareholding framework in commercial banks

Commercial Banks (Acquisition and Holding of Shares or Voting Rights) Directions, 2025

The Reserve Bank of India (RBI) has recently notified the Commercial Banks (Acquisition and Holding of Shares or Voting Rights) Directions, 2025 (Directions) under Sections 12, 12B and 35A of the Banking Regulation Act, 1949 (Banking Act), superseding earlier instructions governing acquisition thresholds, voting rights, and shareholder eligibility in Indian commercial banks.

Regulatory landscape and objectives

- The erstwhile regulatory regime had increasingly come to be viewed as fragmented and unduly onerous for market participants, with compliance obligations dispersed across statutory provisions, subordinate legislation, and evolving supervisory practice. A notable example is Section 12B of the Banking Act, which mandates prior RBI-approval for the acquisition of a major shareholding (5% or more of a bank's paid-up share capital or voting rights). In spite of this threshold existing for decades, regulatory expectations around aggregation, indirect acquisition, and beneficial ownership evolved largely through uncodified supervisory practice, rather than a consolidated framework, the absence of which has often led to uncertainty, particularly in transactions involving private equity funds, layered investment vehicles, or changes in control without direct share transfers.
- To address this, the Directions formalise RBI's supervisory approach by consolidating approval requirements, fit-and-proper standards, and post-acquisition monitoring obligations into a single, coherent regulatory instrument. The Directions also clearly articulate RBI's objectives: preventing excessive concentration of ownership, ensuring that persons exercising material influence over banks meet high standards of probity and financial soundness, and enabling continuous regulatory oversight over ownership structures.

Key changes

- **Consolidated and clarified approval regime:** Any acquisition, direct or indirect, resulting in 5% or more shareholding or voting rights, now clearly falls within a unified approval framework. The Directions clarify aggregation principles to ensure that holdings across entities or concert parties are assessed collectively, reducing scope for regulatory arbitrage.
- **Formalisation of fit-and-proper scrutiny at higher thresholds:** While fit-and-proper assessments were already part of RBI's practice, the Directions codify the criteria and expressly link the depth of scrutiny to the level of proposed influence. For higher shareholding levels, RBI's assessment extends beyond financial soundness to governance impact, strategic intent, and potential influence over management.

- **Shift from one-time approval to continuous supervision:** Banks are expressly required to undertake ongoing monitoring of major shareholders to ensure continued fitness and propriety. Any material change in ownership, control, or source of funds must be reported to the RBI, indicating a shift from static approvals to dynamic ownership supervision.
- **Reaffirmation of statutory voting rights cap:** The Directions reiterate that voting rights remain capped at 26%, irrespective of the extent of shareholding, reinforcing the statutory limit under Section 12(2) of the Banking Act and preventing effective control through voting concentration.
- **Restrictions linked to Financial Action Task Force (FATF)-identified jurisdictions:** Acquisitions from jurisdictions flagged by the FATF as high-risk or non-compliant are restricted unless specifically permitted by RBI, strengthening safeguards against opaque ownership and illicit fund flows.

The Directions reflect a measured strengthening of the RBI's framework on ownership and control, rather than a fundamental policy change. By clearly setting out approval thresholds, fit-and-proper requirements, and ongoing monitoring obligations, the RBI has improved regulatory clarity and predictability for banks and investors while preserving existing prudential standards. The emphasis on continuous monitoring strengthens internal governance processes and aligns Indian banking regulation with international supervisory norms that treat ownership as a dynamic risk factor.

The effectiveness of the framework will depend on consistent application by the RBI and on the banks' ability to integrate ownership monitoring into their internal compliance systems. Operationalising continuous shareholder monitoring may pose challenges, particularly for banks with complex ownership structures or widely dispersed institutional investors. Tracing beneficial ownership through pooled vehicles and identifying indirect control or influence will require robust internal systems. For investors, the Directions highlight the need for early engagement with the regulator and careful transaction structuring when acquiring significant shareholdings in Indian banks. Additional supervisory guidance may also be needed on aggregation principles and treatment of non-traditional economic exposure.

Labour proceedings cannot be continued after approval of the resolution plan

Successful Resolution Applicant cannot be burdened with legacy employment disputes

Employment-related claims which are not included in an approved insolvency resolution plan cannot be pursued against a company after it is taken over by the Successful Resolution Applicant (SRA) under the Insolvency and Bankruptcy Code (Code).²

Pending a wage dispute between the company and its trade union before the Industrial Tribunal, the employees were dismissed from service, against which they approached the Labour Court. In parallel, the company had entered insolvency in 2017, and in 2024, Deccan Value Investors was declared as the SRA and took over the company's management on a 'clean slate' (only liabilities specifically provided for in the resolution plan survive).

After the takeover, the company sought closure of the pending labour proceedings. While the Labour Court and Industrial Tribunal rejected this request and continued to entertain the employees' claims, the High Court overturned those orders. It examined the resolution plan, which expressly stated that employee and workmen dues for periods prior to the insolvency approval date were valued at 'nil' and that all such claims – including back wages, compensation, damages, and other employment-related liabilities – stood permanently written off unless specifically provided for. The plan also recorded that the company had 699 employees and that workforce retention after the takeover would be entirely at the discretion of the new owner. The concerned employees were not part of this list and had not filed any claims with the resolution professional during the insolvency process.

The High Court held that once a resolution plan is approved, it becomes binding on all stakeholders, including employees, and any claim not included in the plan is legally extinguished. Allowing old disputes to continue after a takeover would undermine the purpose of the Code, which is to give resolution applicants commercial certainty and encourage distressed-asset investment. It also referred to Section 238 of the Code (which gives the insolvency law overriding effect over other statutes) and Section 32A (which protects new management from past criminal offences), to reinforce that the SRA cannot be burdened with legacy employment disputes.

Accordingly, the High Court quashed the pending industrial reference proceedings and ruled that no further adjudication was permissible, even for reinstatement without back wages, effectively confirming that employment claims which are not submitted and recognised during the insolvency process do not survive the approval of a resolution plan, and that companies acquired through insolvency proceedings are shielded from such historical liabilities.

² Ahmednagar Forgings Ltd v. Dongare Ganesh, Writ Petition No. 11862 of 2025 (Bombay High Court)



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CONTRIBUTORS

Arindam Sarkar | Partner
arindam.sarkar@foxandmandal.co.in

Bhargav Mitra | Partner
bhargav.mitra@foxandmandal.co.in

Saurav Bhaumik | Associate Partner
saurav.bhaumik@foxandmandal.co.in

Anwasha Sinha | Senior Associate
anwasha.sinha@foxandmandal.co.in

Abhimanyu Kakrania | Associate
abhimanyu.kakrania@foxandmandal.co.in

Aman Maini | Associate
aman.maini@foxandmandal.co.in

Rangita Chowdhury | Associate
rangita.chowdhury@foxandmandal.co.in

Shuvangi Gupta | Associate
shuvangi.gupta@foxandmandal.co.in

Ashutosh Gupta | Partner
ashutosh.gupta@foxandmandal.co.in

Neytra Nayak | Associate Partner
neytra.nayak@foxandmandal.co.in

Rudresh Mandal | Senior Associate
rudresh.mandal@foxandmandal.co.in

Abhinav Jain | Assistant Manager
abhinav.jain@foxandmandal.co.in

Deeksha Dabas | Assistant Manager
deeksha.dabas@foxandmandal.co.in

Shrinwantu Choudhury | Associate
shrinwantu.choudhury@foxandmandal.co.in

Ayushi Sinha | Trainee Associate
ayushi.sinha@foxandmandal.co.in

OUR OFFICES

BENGALURU

G 102, Embassy One Pinnacle
8 Bellary Road, Bengaluru 560 032
Email: bengaluru@foxandmandal.co.in

KOLKATA

7th Floor, 206 AJC Bose Road
Kolkata 700 017
Email: calcutta@foxandmandal.co.in

KOLKATA

12, Old Post Office Street
Kolkata 700 001
Email: calcutta@foxandmandal.co.in

MUMBAI

105, Arcadia Building, 195 NCPA Marg
Nariman Point, Mumbai 400 021
Email: mumbai@foxandmandal.co.in

NEW DELHI

Fox & Mandal House
D 394, Defence Colony, New Delhi 110 024
Email: newdelhi@foxandmandal.co.in