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## “A STUDY ON THE LEGAL AND REGULATORY MECHANISMS GOVERNING INVESTMENT OF ₹ 10,00,000.00 IN THE INDIAN SECURITIES MARKET”

BY

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### I. ABSTRACT

India's securities market is well regulated, with a complex network of statute and common law that offers various opportunities to investors to manage between risk and return. The paper takes the example of making an investment in the Indian financial market with your capital of ₹10,00,000 outlaid towards low-risk funds and sectors safe/fall back investment avenues. The study brings out SEBI as a primary regulator and also bring out the statutory provisions of The Securities Contracts (Regulation) Act, 1956, The SEBI Act,1992 and Mutual fund regulations. It examines how risk profiling, investor protection mechanisms, disclosure requirements and prudential norms influence investment decisions in equities, derivatives and mutual funds. It also assesses the extent to which such legal protections exist for investor rights and responsibilities imposed on intermediaries, as well as how regulatory reforms contribute to transparency, efficiency and stability in the securities market. By examining investment allocation between hazardous and safe assets, the present paper aims to illuminate a junction of financial strategy and regulatory compliance and provide a mandate for prudent portfolio construction in India's developing capital market.

### II. INTRODUCTION

In the dynamic financial landscape of India, the need for stable and safe investment options has grown periodically among all the retail investors who prioritize steady returns with capital preservation. Backed by a strong legal and regulated framework, the securities market of India offers different instruments that are well suited various levels of risk tolerance. The low-risk avenues such including government securities, debt mutual funds and fixed deposits, for conservative investors serve as a reliable choice that have the capability to balance safety with that of moderator terms.

These instruments are regulated and guided primarily by the Securities and Exchange Board of India (SEBI) and Reserve Bank of India (RBI). SEBI plays an important role in ensuring investors' protection, accountability, transparency and sound market conduct through legislative frameworks like The SEBI Act 1992 and The Mutual Fund Regulations 1996. On the other hand, RBI regulates the banking and debt markets including instruments such as

Treasury Bills and Sovereign Bonds under the frameworks like the Master Directions on Non-Resident Investment (NRI) in Debt instruments.

The investment of ₹ 10,00,000 is spread across the low-risk instruments of the market that demands both sound financial judgement and adherence to all legal requirements such as taxation norms, KYC compliance and investment limits. The current initiatives including the Fully Accessible Route (FAR) for the securities of the government and the simplified procedures for participation of retail investors have further imposed accessibility along with a reduction in hurdles of the regulatory.

This research paper aims to analyse the legal and regulatory ecosystem governing safe investment schemes in India. It highlights the safeguarding measures that protect the investors and also provide guidance for maintaining financial stability, while outlining strategies for risk averse investors in order to engage with the securities market effectively in compliance with applicable laws and regulations.

### III. INVESTMENT IN SAFE & STABLE INSTRUMENTS IN INDIAN SECURITIES MARKET

#### 1. Government Securities (20% of 10 Lakhs i.e., ₹2,00,000.00 in the Central Govt. Securities)

Investment of ₹2,00,000.00 in the Central Govt Securities having face value of 100 and maturity on 2027 at 7.09% yield.

The debt instruments issued by the Indian government to raise funds for infrastructural projects, fiscal needs or any other developmental programmes are Government Securities (G-Secs). The investments are risk free in G-Sec as they have a sovereign guarantee on principal and interest. The different types of Government Securities are as follows:

- Treasury Bills (T-Bills) are short term securities that have maturity of 91, 182 or 364 days
- Government Bonds are long term securities that have maturities ranging from 1 year to 40 years
- Through platforms such as RBI Retail Direct, banks, post offices and mutual funds, the retail investors can invest in government securities. These instruments provide a stable, safer and predictable income sources as a result making them ideal for low-risk portfolio allocations.<sup>1</sup>

#### Reasons for investment in Government Securities:

- As the government securities are backed by the Indian government, it ensures safety, security and minimal default risk
- G-Secs provides mixed interest payments, predictable returns and guaranteed repayment at face value
- G-Secs provides easy liquidity process tradable on NSE, BSE or through platforms of Retail Direct of RBI<sup>2</sup>
- G-Secs provide diversified portfolio including low risk component in order to balance higher risk investments such as equities
- Certain G-Secs including Inflation Linked Bonds provides protection to returns against inflations
- G-Secs ensures transparency, accountability and protection of investors through proper supervision by the RBI and SEBI

#### Regulatory framework regulating G-Secs:

- The Reserve Bank of India gets the authority to issue and manage government securities from the RBI Act 1934<sup>3</sup>
- The legal framework for the holding, issuance and transfer of G-Secs is provided under Government Securities Act 2006 & Rules 2007
- The trading of G-Secs in the secondary market is regulated by Securities Contracts (Regulation) Act 1956 (SCRA)<sup>4</sup>
- The market intermediaries in G-Secs are overseen by SEBI Act 1992 and also ensures investor protection

<sup>1</sup> www.prsindia.org

<sup>2</sup> www.rbi.org.

<sup>3</sup> www.fimmda.org

<sup>4</sup> www.sebi.gov.in

- The Income Tax Act 1961 provides with tax compliance regulations for interest income that are earned from G-Secs

### Compliance with Indian Laws:

The issuance and trading of G-Secs are conducted by RBI on behalf of the government in accordance with SCRA & SEBI Regulations through NBS-OM platform and options. The transactions conducted through RBI systems, NSE or BSE of all G-Secs ensures transparency, accountability and fairness. The investors are mandated to comply with KYC norms of SEBI and PMLA 2002 requirements. The RBI and SEBI mandates regular disclosure and reporting of all issue details, maturities, coupon rates and overall market performance. The tax compliance must also be adhered by investors where interest income is taxable except for certain tax-exempt government schemes.

## 2. Public Sector Undertakings (30% of 10 Lakhs i.e., ₹3,00,000.00 in Invesco PSU Equity)

Investment of ₹3,00,000.00 in the Invesco India PSU Equity Fund Direct Growth having 3-year annualised growth of 31%.

Thematic equity funds that primarily invest in companies that are owned and controlled by the Indian government are Public Sector Undertaking (PSU) mutual funds. These companies operate across sectors where there is a strong presence of PSUs i.e. infrastructure, banking and defence.

Aditya Birla Sun-Life PSU Equity Fund, SBI PSU Fund and Invesco India PSU equity fund are key examples of such funds. The main objective of these funds is to achieve capital appreciation and is managed by professional AMCs. The capital appreciation can be done by capitalizing on stability and growth potential of entities that are backed by government<sup>5</sup>.

### Reasons for investment in PSU Mutual Funds:

- The PSU mutual funds get a lot of benefits because of government ownership and thus provide creditability and reduces risk default<sup>6</sup>
- These mutual funds form the backbone of the economic development of India as they operate in various sectors like banking infrastructure<sup>7</sup>
- These mutual funds provide a steady income source for investors as they have a history of paying dividends<sup>8</sup>
- These mutual funds have sustainable economic growth opportunities as the focus is on infrastructural expansion and capital expenditure of the nation<sup>9</sup>
- The mutual funds provide diversified options where investors can invest across various government-controlled sectors and companies and thus helping them to minimize all stocks specific risks

### Regulatory framework governing PSU Mutual Funds:

- The definition of the structure, operation and compliance requirements of various mutual funds in India are provided under SEBI (Mutual Funds) Regulations 1996<sup>10</sup>
- SBI is established as the primary regulatory authority for securities market under the Securities & Management Board of India Act 1992
- The formation and governance of trustee companies and AMCs are regulated by the Companies Act 2013
- The taxation on capital gains, other incomes earned from investment in mutual funds and dividends are governed by the Income Tax Act 1961

<sup>5</sup> Top Performing PSU Mutual Funds in India | 5paisa

<sup>6</sup> PSU Funds: Benefits and The Top Funds - Upstox

<sup>7</sup> Why Should You Still Invest In PSU Mutual Funds?

<sup>8</sup> Are PSU mutual funds a good investment option?

<sup>9</sup> Are PSU Mutual Funds a Smart Investment Choice? Benefits of PSU Funds

<sup>10</sup> Securities and Exchange Board of India (Mutual Funds) Regulations 1996 ...

- The bank sponsored mutual funds and their investment in government securities or any other related instruments are governed by RBI guidelines<sup>11</sup>

### Compliance with Indian laws:

The registration of all PSU mutual funds must be done with SEBI and must also comply with its regulations on risk-management and investment limits<sup>12</sup>. The AMC's must provide periodic reporting of the compliance reports and can be subjected to inspections conducted by SEBI to ensure adherence<sup>13</sup>. The investors are mandated to comply with KYC norms and Anti-Money Laundering (AML) procedures as specified under the SEBI and RBI norms. In order to maintain transparency and accountability, the funds are required to publish performance reports, Net-Asset Value (NAV) and portfolio holdings on a regular basis. These mutual funds are mandated to comply with taxation as specified under Income Tax Act on provisions of capital gains taxation and distributions of dividends.

### 3. Debt Mutual Funds (20% of 10 Lakhs i.e., ₹2,00,000.00 in Aditya Birla Debt Fund)

Investment of ₹2,00,000.00 in Aditya Birla Sun Life Liquid Fund Direct Growth having 3-year annualized growth of 7.10%.

Investment schemes that invest primarily in fixed income securities like the corporate bonds, treasury bills, government bonds and money market instruments are debt mutual fund. These funds provide investors stable and predictable returns by maintaining low level risk when compared to equity mutual fund<sup>14</sup>. These funds allocate the capital of sectors across various diversified range of debt instruments when managed by professional AMC's. Such allocations are based on factors like credit rating, maturity period and interest rate output. These funds are most suitable to investors who are risk averse and seeking preservation of capital and steady income over short to medium horizons of investment.

### Reasons to invest in debt mutual funds:

- These funds are suitable for conservative investors as they exhibit lower market volatility when compared to equity funds<sup>15</sup>
- These funds generate stable and predictable returns through regular income interest<sup>16</sup>
- These funds offer high liquidity as they provide flexible redemption options without having the requirement of long-lock-in period unlike traditional fixed deposits<sup>17</sup>
- These funds provide superior returns on post tax when they are held for long durations under the benefits of indexation regime<sup>18</sup>
- These funds provide vast diversification and thus help reduce portfolio risk by balancing the exposure across various asset classes
- These funds provide professional management by appointing experienced fund managers to actively monitor and rebalances various portfolios to mitigate risk and optimise returns<sup>19</sup>

### Regulatory framework governing debt mutual funds:

- These structural, registration and operational norms for mutual fund schemes in this type of funds are established by SEBI (Mutual Funds) Regulations 1996<sup>20</sup>
- The debt funds are categorised into sixteen specific subtypes by SEBI Master Circular (2023), based on the risk and duration parameters including gift funds, liquid funds, corporate bond funds<sup>21</sup>

<sup>11</sup> Legal and Regulatory Framework for Mutual Funds in India

<sup>12</sup> Mutual Fund Regulations in India: An Overview of SEBI Guidelines

<sup>13</sup> Regulatory Spotlight on Mutual Funds - S&R Associates

<sup>14</sup> Debt Mutual Funds - Types, Benefits and Returns of Debt Funds - Groww

<sup>15</sup> Top 10 Reasons to Invest in Debt Mutual Funds Today

<sup>16</sup> How to Invest in Debt Mutual Funds for Stable Returns

<sup>17</sup> Understanding Debt Mutual Funds in India: Types, Benefits, and ...

<sup>18</sup> Should You Invest In Debt Mutual Funds? - Forbes

<sup>19</sup> Debt Mutual Funds: Types, Features, Benefits & Investment

<sup>20</sup> Securities and Exchange Board of India (Mutual Funds) Regulations 1996 ...

<sup>21</sup> SEBI Guidelines for Debt Mutual Funds | Fi Money

- The fund managers and insiders are prevented by SEBI (Prohibition of Insider Trading) Regulations from any misuse of price sensitive and confidential information<sup>22</sup>
- The legal foundation of mutual funds is provided under Indian Trusts Act 1882 which are constituted to act as public trust to ensure fiduciary accountability<sup>23</sup>
- The Income Tax Act 1961 governs the tax compliance of interest income and capital gains earned from these funds

### Compliance under Indian Laws:

All these funds must strictly adhere to prescribed sixteen sub categories of SEBI to maintain uniformity and ensure transparency[8]. The AMCs are required to comply with the disclosure norms of portfolio holding, risk indicators and net asset values (NAV) to SEBI and investors. SEBI mandates risk management standards and fair accounting models to ensure accurate and proper NAV computation<sup>24</sup>.

In these funds the AMCs must establish sound internal mechanisms for ensuring and preventing insider trading[9]. SEBI must mandate the AMCs to implement whistle-blower protection policies to enable employees to report any un ethical or fraudulent actives<sup>25</sup>.

### 4. Gold ETFs (30% of 10 Lakhs i.e., ₹3,00,000.00 in Axis Gold Exchg. Fund)

Investment of ₹3,00,000.00 in Axis Gold Exchange Traded Fund having 1-year annualized growth of 31.2%.

The instruments of investment which tracks the price of physical gold and are traded on stock exchanges in a similar way as it is done in equity shares are Gold Exchange Traded Funds (Gold ETFs). Each single unit of Gold ETF represents one gram of 99.5% pure gold which is stored securely in the vaults by the approved custodian of SEBI<sup>26</sup>. These funds are managed by the AMCs and their objective is to replicate the performance of domestic gold prices and provide the investors with a transparent, convenient and cost-effective way to invest in gold without facing the challenges of security concerns for physical storage.

### Reasons to investment in Gold ETFs:

- Investment in these funds are stated to be safe heaven asset as gold acts as a hedge against currency depreciation, geo-political instability and inflation and offers protection of portfolio during any uncertain events<sup>27</sup>
- These funds offer high liquidity as they can be traded easily on the recognised stock exchanges such as NSE & BSE throughout market hours and thus allowing quick asset to funds and flexibility
- These funds, unlike physical gold eliminates the risk of impurity, theft and storage cost as there are no storage concerns
- These funds provide favourable tax treatments particularly in long term capital gains and thus making them even more efficient than holding physical gold
- These funds provide efficient portfolio diversification and hence reduce overall risk as gold acts inversely to equities
- These funds ensure fair valuation and transparency in pricing as the price of single Gold ETF unit reflects the prevailing domestic gold rate

### Regulatory framework for Gold ETFs:

- The structure, governance and disclosure obligation of all mutual funds along with Gold ETFs are defined under SEBI (Mutual Funds) Regulations 1996
- SEBI Circular 2021 provides operational guidelines for these funds such as investment in 99.5% pure gold, custodians requirements and valuation methods<sup>28</sup>

<sup>22</sup> SEBI's new rules for mutual funds, debt securities from Nov 1: What ...

<sup>23</sup> SEBI Mutual Fund Regulations: Guidelines & Impact on India

<sup>24</sup> SEBI Updates Mutual Funds Regulations 2025: Key Changes and Insights ...

<sup>25</sup> SEBI's New Mutual Fund Rules: Effective Date & What ... - Times Now

<sup>26</sup> Best Gold ETFs in India 2025 - Top Gold Etf's - Groww

<sup>27</sup> Best gold ETFs in India 2025: Rates, returns, and how to choose

<sup>28</sup> SEBI | Norms for Silver Exchange Traded Funds (Silver ETFs) and Gold ...

- The SEBI's regulatory authority over the collective investment schemes and securities market are established by Securities & Exchange Board Act 1992
- The dematerialization and electronic trading of ETF units is enabled by Depositories Act 1996 through recognized depositories
- The Income Tax Act governs the framework of taxation for income derived from these funds and capital gains.

### Compliance under Indian Laws:

SEBI mandates valuation standards for ETF assets based on prevailing domestic gold spot prices in order to ensure fairness and consistency<sup>29</sup>. These funds must comply with custody and purity requirements where gold must be 99.5% pure and must be held securely by the approved custodians of SEBI to guarantee authenticity. The disclosure obligations must be adhered by AMC's where they must disclose periodically portfolio details, gold holdings, NAVs and tracking errors to SEBI and investors<sup>30</sup>. Gold ETFs must adhere to tax compliances for capital gains and issue relevant documentations for tax filing investor. The units of Gold ETFs are traded on recognized stock exchanges such as NSE or BSE under the supervision of SEBI and thus ensuring fair and efficient market practices.

## IV. CONCLUSION

This research paper does not influence in any form of investments; this paper is only for research and academic purpose.

The securities market of India provides a vast investment spectrum opportunities that are designed to suit according to the various levels of risk tolerance. The conservative investors who prioritize stable returns and capital preservations, the legal and regulatory framework for them serves as an important safeguard measure for ensuring security and accountability and transparency in every investment avenue.

This research paper has examined and provided a systematic allocation of ₹10,00,000.00 across various low-risk investments such as Public Sector Undertaking (PSU), Debt Mutual Funds & Gold Exchange Traded Funds (ETF) where each are governed by well defined legal and regulatory structure.

The financial market of India is governed and administered by three main regulatory authorities such as The Securities and Exchange Board of India (SEBI), The Reserve Bank of India (RBI) and The Ministry of Corporate Affairs (MCA). These institutions ensure investor protection and other essential compliances through legislations such as SEBI Act 1992, The Securities Contract (Regulation) Act 1956, The Income Tax Act 1961 & The Companies Act 2013. This legislation all together uphold the integrity of financial system and thus maintains trust and confidence among investors.

All the investment instruments stated in this paper adheres to these legal norms and thus provides investors a secured environment for the creation of wealth. The capital market of India is continuously evolving and enhancing the importance of maintaining transparent, simple and investor centric regulations. Even though the existing framework is currently comprehensive, it must also adopt technological innovations and global best practices in order to enhance efficiency and to build trust the awareness of this legal provision is of utmost importance for all retail investors, not only for compliance requirements but for also making risk aware and informed investment choices.

A diversified investment strategy in low-risk investments aims to protect capital and also supports the broader objectives of financial inclusion, sustainable economic growth and investor empowerment of India.

<sup>29</sup> SEBI plans overhaul of gold, silver ETF valuation rules: Here's what it ...

<sup>30</sup> SEBI Proposes New Valuation Norms for Gold and Silver ETFs

## V. SUGGESTION

1. The SBI and RBI provides strong regulatory framework for investor protection, yet the existing compliance procedures for them are complex and challenging for retain investors. This issue can be addressed by introducing a streamlined and user-friendly digital platform for all regulatory interactions which would enhance accessibility, promote greater participation and minimize any procedural delays in the Securities Market of India.
2. Certain securities regulations have upgraded from post-independence framework and currently consist of multiple layers of amendments. These outdated provisions can improve legal clarity ease the overall regulatory burden and reduce redundancy by providing a comprehensive review and consolidation.
3. Many investors are unaware of the legal rights, risk return profiles and tax obligations despite the availability of well-regulated investment options. The AMCs and SEBI should provide initiatives for investor education and expand financial literacy in regional languages in order to promote informed investment.
4. With the growth in emphasis on sustainability and ethical finance, the regulators should incentivise the development of Environmental, Social and Governance (ESG) compliant investment products within all PSUs and debt fund categories
5. For strengthening regulatory efficiency, market integrity and for ensuring transparency adapting fintech innovations and artificial intelligence (A.I) would be helpful for real time compliance tracking, investor grievance redressal and frauds.
6. Public Sector Undertaking (PSU) investments along with Sovereign Bonds should provide a more enhanced governance disclosure and performance matrix to build more trust among investors by offering investors to access them with similar rigor as private sector investments.

