Speech of Ananth Narayan, WTM, SEBI at 11th Capital Markets Conclave of CII
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Good morning, ladies and gentlemen.

I thank CII for the privilege of being here amongst this august gathering of capital market stakeholders.

Today, I thought I would begin by reflecting on the remarkable journey that we have collectively traversed in our capital markets over the last few years. Even as there is much to celebrate, I will then point out some of the opportunities and challenges that lie ahead. In this regard, I will also describe some of the initiatives that SEBI is undertaking around spreading investor education and awareness. Finally, I thought I would emphasize the need to co-create an optimal regulatory ecosystem, taking the ongoing example of our equity derivatives market.

I. Let us begin with a review of some of the recent trends in our capital markets.

Thanks to the efforts of all stakeholders, our domestic savers have increasingly and visibly taken to our equity markets.

The number of unique demat account holders has more than tripled over the last 5 years, to more than 10 crores today.

Over the last 6 years, our savers have poured in INR 18 lakh crores (USD 210 bn) into equity risk-oriented mutual fund schemes, including hybrid funds.

The AUM of such equity risk-oriented MF schemes has risen by well over 4 times, from INR 12 lakh crores in June 2019 (pre-Covid), to INR 53 lakh crores now.

Nearly half of all Mutual Fund folios are from beyond the top 30 cities. This indicates widespread and dispersed adoption of this equity culture across the country.

Over the last six years, domestic investors into risk-oriented Mutual Fund schemes have collectively made a remarkable annualized return of 15.5% per annum.

Even as domestic flows into our equity markets have dwarfed flows from Foreign Portfolio Investors (FPIs) in recent years, FPIs remain a crucial and welcome stakeholder into our markets. As of June end, FPI Assets Under Custody in our equity markets stood at over INR 74 lakh crores (or well over USD 860 bn). This has been and will continue to be a symbiotic relationship; while FPIs have aided our capital formation, they have made annualized total returns in USD terms of over 10% in USD terms since inception. We remain open for business and investment from FPIs.

With all this patient risk capital available, issuers are now rising to the occasion as well. In FY25, a year when we saw a record INR 6.15 lakh crores of domestic equity riskseeking inflows into our mutual funds, we also saw a record INR 4.6 lakh crores of equity raise by way of IPOs, FPOs, rights issues, preference issues, and QIPs.

In capital markets, nothing exemplifies successful capital formation than this combination of record demand for paper, matched by a record supply of paper.

Perhaps something that is less noticed is the growth in the Alternate Investment Funds (AIFs), much of which is invested in the unlisted space. As of March 2025, commitments into AIFs stood at INR 13.5 lakh crores, a growth of over 1.7 lakh cores over the previous year: an order of magnitude comparable to the funds flowing into equity mutual funds. Over the past five years, AIF commitments and investments have seen a 30% Compounded Annual Growth Rate – heartening signs for capital formation.

These are some of the many achievements that we can take pride in.

II. Yet, there is no room for complacency, and both opportunities and challenges abound.

First, there is a definite opportunity – indeed a need - for our entrepreneurs and companies to invest in and create the future.

Our future will be profoundly different. Artificial Intelligence and automation are transforming businesses. Breakthroughs in energy, quantum computing, and even space exploration are opening possibilities we could barely imagine just a decade ago. This is also an opportunity – and perhaps an imperative – that we work to define the future, rather than only react to it. This only underscores the need for our entrepreneurs and companies to invest, now.

Fortunately, in India, there is capacity to grow investments. Debt levels are generally low. Savers are coming into the stock markets in unprecedented numbers, bringing patient capital with them. Yet, we still see an overhang of caution. Perhaps we need some “controlled aggression” — the boldness amongst corporates and entrepreneurs to invest, but with discipline.

There is a second opportunity – for us to look beyond just equity as an asset class.

One could argue that our markets remain very equity focused, narrowing the scope for optimal asset allocation by our savers. The corporate bond market, while growing, still needs depth. Commodities markets, in particular, have significant untapped potential.

SEBI is working to facilitate greater participation and product innovation across these asset classes – from improving transparency and trading in corporate bond markets, InvITs, REITs, and Municipal Bonds, to expanding the reach of commodity derivatives. We will need all stakeholders to lend their weight and expertise to these efforts.

Third, there are many more potential investors to bring into capital markets, even as we ensure responsible and risk-aware investing.

While we celebrate the remarkable growth in unique investors into our capital markets to around 13 crores now, there is still much room to grow. The number of individuals that have their PAN linked to AADHAR is four times this number.

At the same time, we must ensure those that have entered or are entering the markets understand that market investments are subject to many risks, from market risks to cyber risks, and do an asset allocation in line with their own risk appetite.

III. Clearly, ensuring quality Investor Education and Awareness is key to achieving this objective of ensuring responsible and informed investing into our capital markets.

Going forward, as guided by Chairman SEBI, we are looking to do much more on this score.

To that end, along with other Market Infrastructure Institutions and AMFI, SEBI has embarked on a comprehensive survey of current and potential investors and their risk awareness. This nationwide survey, covering over 90,000 households, seeks to answer two critical questions:

- What will it take to bring more savers into the securities market?

- Most importantly, how informed are our existing and potential investors about the inherent risks? What is needed to ensure responsible, risk-aware investing?

The findings of this survey will enable us to design a large-scale targeted, demography-sensitive outreach program, delivering the right messages, in the right languages, through the right media.

In the more immediate term, we are also addressing a growing and specific menace of digital frauds. Exchanges, depositories, AMFI, and SEBI are collaborating on an outreach program to combat this challenge, and to address the issue of some fly-by-night unregistered fraudsters hoodwinking savers with promises of assured high returns.

This outreach will culminate on October 1st with the launch of:

- The unique “valid” UPI handle for SEBI registered entities, to create a safe space for investors where only SEBI-registered intermediaries operate, and

- A ‘SEBI-Check’ utility to verify that an account number belongs to a valid SEBI-registered entity

We urge the industry to actively support and amplify these efforts to shut out unregistered fraudsters.

IV. Let me now turn to the need for us to collectively co-create an optimal regulatory framework.

Let me take the specific example of our equity derivatives markets.

There is no question that derivatives and indeed, speculation are vital for price discovery, hedging, and ensuring market depth. But certain trends in our equity derivatives ecosystem have warranted a closer look for a while now:

- Even today, very short-term derivatives dominate our equity derivative volumes. Research[1,2,3] has suggested that expiry day option trading increases market volatility and could lead to noise trading that may potentially undermine confidence in price formation. Unlike longer term derivatives, short-term derivative products such as expiry day trading in index options may detract from capital formation.

- As many experts have pointed out, our Indian derivative market ecosystem is quite unique, in that on expiry days, comparable turnover in index options are often 350 times or more the turnover in the underlying cash market – an imbalance that is obviously unhealthy, with several potential adverse consequences.

- SEBI's own updated research shows that 91% of individual traders incurred net losses trading in F&O in FY25, with their aggregate losses crossing ₹1 lakh crore. This is a large sum of money that could have otherwise gone towards responsible investing and capital formation.

We recognize the potential concerns of market infrastructure institutions, brokers, and other intermediaries, whose revenues may depend heavily on these short-term derivative volumes. But we must ask ourselves collectively - is all this at all sustainable?

Over the past year, in consultation with all stakeholders, SEBI has taken steps to address these issues – most notably through regulatory changes introduced in October 2024 and May 2025. Possibly because of all this, we are seeing some signs of moderation of the trends noted above.

However, this specialized area requires ongoing constructive debate and work. There is a win-win that we must co-create, where sustained capital formation is supported, while providing sustainable revenue streams for all stakeholders.

I would strongly endorse the view that towards this end, we must look for further ways to further deepen our cash equities markets, even as we look to improve the quality of our derivatives market by extending the tenure and maturity of the products and solutions on offer. We need constructive engagement from all stakeholders to achieve this.

V. Let me now conclude, by focusing on the key ingredient of healthy capital markets – trust.

Our funds ecosystem has grown significantly in recent times, with substantial growth in both issuances and investments. Something good is underway around capital formation.

However, there are opportunities and challenges ahead. One key imperative is to preserve and strengthen the trust in the ecosystem, and to ensure responsible investing.

Type I errors – such as governance failures, technology failures, market manipulation, or perverse market design can endanger trust and kill the goose that is laying golden eggs. We must collectively continue to guard against these.

We are also conscious of Type II errors, where in our effort to minimize Type I errors, we could create a regulatory framework that comes in the way of sustained capital formation or legitimate businesses.

I can assure you that we in SEBI look at both risks very closely and undertake extensive consultation to minimize both together. We will also step up our efforts around investor education and awareness.

As first line regulators, it is crucial that Exchanges, Clearing Corporations, and Depositories give, and are seen to give adequate attention to ensuring technology and operational resilience, and to ensuring adequate risk management and compliance in public interest, while balancing commercial considerations.

In turn, I ask that all other stakeholders, including intermediaries and industry, must strive to be trusted advisors who focus on both errors equally. On Type I errors, when you see something, please say something. Similarly, when you lobby to reduce Type II errors and improve your business prospects, please engage with us openly on how the risks of any resultant Type I errors can be mitigated.

Here’s to us working collectively as trusted partners to ensure sustained capital formation in our country. Thank you for this opportunity, and your patience.