



## SEBI'S REGULATION OF ONLINE BOND PLATFORMS (2023 FRAMEWORK): A NARROW BUT NECESSARY REFORM

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### ABSTRACT

*The rapid rise of fintech-driven Online Bond Platforms (OBPs) in India has changed access to the corporate debt market, which was traditionally controlled by institutional investors. Platforms like GoldenPi, BondsIndia, and Wint Wealth had allowed retail investors to participate in bonds and debentures in a very manner, but they mostly operated outside the securities regulation. Concerns were raised over investor protection and the mis-selling of high-risk unlisted instruments. To address these issues, the Securities and Exchange Board of India (SEBI) introduced the Online Bond Platform (OBP) Regulations, 2023. These were the regulations that required platforms to register as stock brokers, manage settlements through recognised exchanges, and limit offerings to listed securities.<sup>1</sup> This paper analyses and evaluates the 2023 framework within the context of India's bond market development. It mainly discusses the structural weak points that require intervention, it also highlights the framework's key provisions, and examines its effects on investors, issuers, and fintech platforms. Although the regulations improve transparency and accountability, they often raise concerns about compliance burdens, decreased innovation, and potential market concentration. Insights from the United States, Singapore and Europe show that SEBI follows international best practices, but its strictness may put a limit on experimentation. This research paper argues that SEBI's reforms might be limited in scope, but are a necessary step toward strengthening and empowering India's corporate bond market and building investor confidence. The regulator must remain adaptable, adding investor education initiatives, regulatory sandboxes, and incentives for secondary market liquidity. In the end, regulating*

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<sup>1</sup> SEBI, Handbook of Statistics on Indian Securities Market 2022 (SEBI, 2022)

*OBPs represents not just compliance but more; it is a structural reform which is aimed at balancing innovation along with protection in India's changing financial landscape.*

**Keywords:** SEBI, Online Bond Platforms, Corporate Debt Market, Fintech Regulation, Securities Law.

## INTRODUCTION

The Indian securities market has seen significant changes in the last two decades, moving right from floor-based trading to advanced electronic platforms. Derivatives, mutual funds, and equity markets are now operating under a solid regulatory framework. However, the corporate bond market has remained less developed and fragmented, with only limited retail involvement. In this context, the rise of Online Bond Platforms (OBPs) has given rise to both opportunities and challenges.

OBPs are a form of fintech-driven interfaces that permit investors to buy and sell debt securities on online platforms. This brings retail investors closer to a market that is traditionally controlled by institutional players. However, the absence of a clear regulatory framework raised concerns about investor protection, mis-selling, and systemic risk. In November 2022, SEBI established a framework that became effective in January 2023, which was supposed to specifically govern OBPs. This framework was later refined by detailed circulars in 2023.<sup>2</sup> This article critically discusses the SEBI (Online Bond Platform) Regulations, 2023, by placing them within the larger securities law system and also assessing their practical impact on intermediaries, issuers, and investors.

## BACKGROUND: WHY ONLINE BOND PLATFORMS MUST BE REGULATED?

Historically, India's corporate bond market has lagged behind its equity counterpart. In accordance with SEBI data, corporate bonds make up less than 20% of GDP in India, while in advanced economies, this figure ranges from 100% to 150%. Retail involvement remains low, mostly due to information imbalance, high entry barriers, and lack of liquidity. Online Bond Platforms have emerged as fintech intermediaries that provide easy access to debt products such as non-convertible debentures (NCDs), sovereign gold bonds, and private issuances. Platforms such as BondsIndia, GoldenPi and Wint Wealth made retail bond investing quite

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<sup>2</sup> Securities and Exchange Board of India Act 1992, s 11

popular by making a combination of digital convenience and aggressive marketing. By 2021–22, regulators expressed concern because:

- Many platforms were operating without proper registration as brokers or investment advisers.
- Retail investors were being sold risky, unlisted bonds without an adequate amount of information.
- Settlement processes lacked clarity, which gave rise to fears of default or fraud.

These entities were outside the SEBI Act framework, creating a regulatory loophole. SEBI used its authority under Section 11 of the SEBI Act, 1992, to introduce a formal regulatory framework in 2023. SEBI's intervention in online bond platforms must not be viewed in isolation from broader policy changes in India's capital markets. Debt instruments were dominated by institutional investors, while retail participation was limited due to a lack of accessibility, transparency issues, and high costs of entry.

The rise of online bond platforms post-2020 opened access but often placed them in a grey area, which was frequently beyond SEBI's direct oversight. This started raising concerns about investor protection. Inadequate risk disclosures, misleading advertisements, and inconsistency in processes led to a large number of disputes. With the 2023 framework, SEBI aimed to balance innovation along with oversight.<sup>3</sup> It recognised technology's role in the expansion of participation while also ensuring that the platforms follow uniform compliance standards. Therefore, the framework is not just a regulatory measure but also part of a broader trend where Indian regulators are reshaping the financial markets to promote accountability and inclusivity.

### **KEY FEATURES OF THE SEBI ONLINE BOND PLATFORM REGULATIONS, 2023**

The regulations provide a detailed structure for OBPs. Some major provisions include -

**Mandatory Registration:** Every OBP must register itself as a stockbroker with SEBI. This makes sure that the platforms are under SEBI's direct oversight, subjecting them to compliance checks and penalties and fines for violations.<sup>4</sup>

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<sup>3</sup> SEBI, SEBI (Online Bond Platform) Regulations 2023, Regulation

<sup>4</sup> SEBI Circular, 'Framework for Online Bond Platforms' (30 November 2022)

**Eligible Instruments:** Only listed debt securities can be offered on OBPs. This helps prevent the sale of risky, unlisted instruments, which lack regulatory oversight.

**Settlement Mechanism:** Transactions should be settled by clearing corporations or recognised stock exchanges. This helps improve transparency and lowers various counterparty risks.

**Investor Protection Norms:** A clear disclosure of credit ratings, risk factors, and default histories is a must. Mis-selling and misleading advertisements are strictly prohibited. All platforms should ensure a strong grievance redressal system and mechanisms.

**Intermediary Conduct:** All OBPs must stick to SEBI's Code of Conduct for brokers. They cannot act as investment advisers unless and until they have separately registered.

Together, these measures aim to professionalise bond distribution, making it a safe place for retail investors while also strengthening the market. The 2023 framework highlights a very significant shift by considering online bond platforms as intermediaries that are accountable to SEBI. The requirement of mandatory registration as stock brokers under the debt segment of stock exchanges formalises their roles and responsibilities in the securities ecosystem.

This change makes sure that the platforms must follow standard conduct codes, meet net-worth requirements, and build clear grievance redressal systems. The requirement that transactions must go through stock exchange systems helps enhance market integrity by reducing various risks, like risks of default, settlement delays, or mispricing.

The framework also adds the compulsion of clear risk disclosures in very simple language, which helps narrow the information gap between issuers and retail buyers. While doing so, SEBI has raised the standards of compliance for these platforms by aligning more with traditional securities intermediaries. It is criticised that the burden of regulation could prevent the smaller fintechs, but the long-term aim is to protect the investors, ensure systemic stability, and foster a fair and competitive environment.

## **PRACTICAL IMPLICATIONS OF THE 2023 FRAMEWORK**

The SEBI framework has far-reaching consequences -

**For Platforms (OBPs):** The compliance costs have seen a rise as fintech startups must now meet capital adequacy, audit, and disclosure requirements. While this helps eliminate and

reduce less serious players, it may also hinder the smaller startups that are without sufficient financial resources.

**For Investors:** Retail investors gain mostly enhanced protection from various fraudulent or risky products. But, restricting offerings to listed securities limits options, especially since unlisted debentures had previously attracted retail interest. For investors, especially retail participants, SEBI's framework turns out to be a very positive<sup>5</sup> change. Before regulation, many buyers of corporate bonds on online platforms had faced uncertainty regarding credit risks, misleading return promises, and a lack of recourse for disputes.

The demand for clear risk disclosures and transactions to go through exchanges helps in directly addressing these issues by promoting standardised settlement and reducing counterparty risks. This framework also helps in strengthening confidence by ensuring that only SEBI-regulated platforms can operate, by filtering out dubious players.<sup>6</sup>

However, there is also a downside to this; the downside is that the higher compliance costs could lead to increased fees or reduced access to high-yield opportunities previously marketed heavily by unregulated platforms. Retail investors might need to adjust their expectations and hopes—they help gain protection and transparency, but may miss some chances of speculative high returns. In the broader context, the reforms help indicate a maturing market where the focus shifts from short-term profits to sustainable, informed participation.<sup>7</sup>

**For Issuers:** Companies may find fewer channels for distributing private placements of bonds. However, the listed issuances gain credibility and attract a wider retail involvement. Ultimately, SEBI has now prioritised investor safety over the flexibility of platforms, in alignment with long-term stability.

For online bond platforms, the new framework helps in presenting both opportunities and challenges. On one hand, registering with SEBI helps boost credibility, helping platforms in drawing more serious investors and fostering partnerships with issuers. This framework provides legitimacy, potentially expanding their customer base. On the other hand, compliance costs—including registration, reporting, audits, and following SEBI rules—could burden

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<sup>5</sup> CFA Institute, Retail Participation in Bond Markets: Global Lessons for India (2021)

<sup>6</sup> US Securities and Exchange Commission, Alternative Trading Systems Regulation (SEC Release No. 34-83663, 2018)

<sup>7</sup> Monetary Authority of Singapore, Guidelines on Regulation of Online Capital Market Platforms (MAS, 2020)

smaller or newer entities. This might trigger market consolidation by reducing diversity, as only the well-capitalised players survive.

Also, platforms must reevaluate their business models, shifting from aggressive marketing strategies to more transparency-driven tactics. Another crucial implication is that the integration with stock exchanges could standardise operations but also reduce flexibility. Overall, this regulation helps push the platforms to evolve from unregulated fintech startups into structured financial intermediaries. Whether this change encourages innovation or limits it will completely depend on how platforms adapt and how SEBI enforces the rules.

## GLOBAL REGULATORY PRACTICES

Globally, the regulation of digital bond marketplaces varies.

**United States (SEC):** Online bond trading is allowed through registered broker-dealers and alternative trading systems. Retail investors can only access listed, regulated debt products.

**European Union (MiFID II):** Platforms selling debt securities must meet strict investor suitability and transparency standards.

**Singapore (MAS):** Online platforms must obtain licensing as capital markets intermediaries, focusing heavily on disclosures and settlement safeguards.

SEBI's framework aligns India with global best practices, preventing regulatory gaps and enhancing investor confidence in bond markets.<sup>8</sup>

## CRITIQUES AND CHALLENGES

Despite its strengths, the 2023 framework has received criticism -

**Reduced Innovation:** By requiring stockbroker registration, SEBI may stifle fintech innovation in bond distribution.

**Liquidity Concerns:** Limiting OBPs to listed securities could restrict the supply of investment options.

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<sup>8</sup> Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (MiFID II)

**Compliance Burden:** Startups believe these regulations favour larger brokerages, leading to market concentration.

## **RETAIL AWARENESS GAP**

Even with required disclosures, retail investors may still struggle with understanding credit risk. These challenges indicate that SEBI must pair regulation with measures to build capacity, such as investor education campaigns and sandbox initiatives for fintech experimentation. Despite its advantages, the 2023 framework has faced critiques. Industry experts have suggested that applying a "stockbroker model" to bond platforms may not fully consider their unique operational aspects. Compliance expenses would disproportionately affect smaller fintech startups by creating oligopoly tendencies where only a few dominant players remain. Additionally, processing all transactions through exchanges may reduce the flexibility in developing innovative products or offering tailored portfolios.

Some people and critics also worry that excessive regulation could hamper and disrupt the swift digital innovation that had initially fueled these platforms' growth. From an investor viewpoint, while regulation enhances trust, it may also lower the availability of higher-yield but riskier products, making the market less appealing for adventurous retail participants.

Ultimately, the challenge is balancing out the oversight with innovation; way too much control risks suppressing creativity, while too little could jeopardise the investor's trust. SEBI's task is to make arrangements to refine the framework as markets evolve.

## **FUTURE OUTLOOK: TOWARD A DEEPER BOND MARKET**

The 2023 OBP regulations must be viewed as an initial step or a stepping stone toward integrating technology with India's debt markets. Future reforms may include:

- Allowing tokenised debt securities through a blockchain in the regulatory sandbox.
- Expanding the retail access to the municipal bonds and ESG debt instruments.
- Encouraging secondary market liquidity through trading of incentives.
- Creating a well-unified framework between SEBI and RBI, especially for corporate bonds, which are related to banking regulations.

Ultimately, the success of these reforms hinges on finding a balance between market depth, innovation, and investor protection.

**CONCLUSION**

SEBI's regulation of Online Bond Platforms in 2023 represents an important moment in Indian securities law. By bringing up fintech intermediaries under its authority, SEBI has helped close a regulatory gap that has exposed retail investors to significant risks. The framework focuses mainly on transparency, disclosure, and accountability, ensuring that investor trust remains the stepping stone and foundation of India's bond market.