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Insider Trading: A comparative analysis of the regulatory models of India with the US and the UK

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Abstract:
This research paper deals with insider trading and the various ill effects in brings on to the society and the corporate entities and the companies and suggests some amendments and measures to curb this illegal practice. This paper would also be comparing with the frameworks of the US and the UK.

Keywords: Illegal, framework, entity, curb, amendment, trading

INTRODUCTION

The practice of insider trading has long been a captivating element within the capitalist securities market, often captivating the interest and imagination of individuals. Notably, prominent incidents within the United States have even served as inspiration for the creation of the film "Wall Street" (1987) by Hollywood. Insider trading is a fundamental aspect of securities law, encompassing the practice of individuals known as "insiders" engaging in trading activities within a regulated securities market. This trading is conducted on the basis of material information, sometimes referred to as "inside information," which insiders possess exclusive access to, thereby excluding other market participants from this privileged knowledge. The user's text is too short to be rewritten academically.
The practice entails the utilization of confidential information that is not available to the general public.[1] The act in question has been classified as a form of white-collar crime. Numerous conversations and deliberations have consistently converged upon the consensus that insider trading represents more than the act of stealing confidential material and price- sensitive information; rather, it constitutes the misappropriation of such information. This narrative is derived from the recurring patterns associated with the illegal act of insider trading. Specifically, individuals involved in this illicit activity exploit non-public information to make investments that manipulate stock prices in public markets, thereby placing ordinary investors at a significant disadvantage. This assertion is reinforced by the ethical rationale behind the restriction of insider trading, which posits that insider trading is ethically objectionable, inequitable, unethical, and tantamount to engaging in deceitful behavior. The act of engaging in insider trading has the potential to undermine the fundamental principle of safeguarding property rights pertaining to knowledge, hence impeding the progress and advancement of such information. This study will endeavor to illustrate the complexities of this idea and present arguments for the necessity of addressing and mitigating this unethical practice. The topic under consideration is a comprehensive

r a more profound understanding of the model. description of a certain subject.

PURPOSE OF THE STUDY

The purpose of this study is to acquire a more comprehensive comprehension of the operations within the field of securities and corporate affairs, with a particular focus on safeguarding the interests of investors. The level of trust among investors is diminished due to unethical practices within corporations, such as insider trading. Therefore, the author aims to conduct this study in order to provide suggestions for mitigating behaviors that undermine the principles of a competitive and equitable market. The occurrence of insider trading has been a persistent issue within the financial markets since the inception of capitalist systems. The general public is placed at a disadvantage due to inequitable access to information that is only available to business insiders. This disadvantage arises when these insiders utilize their privileged information to engage in securities trading and consequently gain financial advantages. According to former Chairman of the Securities and Exchange Commission (SEC), Arthur Levitt, the act of insider trading has the potential to negatively impact investor morale, disrupt investment stability, and is fundamentally incompatible with a just and law- abiding economic system. The user's text is too short to be rewritten in an academic manner.
The equitable availability of information and the presence of information parity are fundamental pillars that underpin the effective operation of securities markets. The objective of this study is to provide recommendations for enhancing the Indian Regulatory framework on Insider Trading. This will be achieved through a comparative analysis of existing regulatory models in the United Kingdom, the United States, and the European Union. By identifying the most effective regulatory mechanisms from these jurisdictions, this study aims to strengthen the Indian regulatory framework and ensure its robustness. The study aims to investigate the significance of insider trading as a recurring issue in the global securities industry. The prevailing discourse surrounding this concept suggests that individuals within corporations, commonly referred to as "insiders," has access to sensitive and confidential information that can be leveraged to generate substantial financial gains. This work aims to undertake a critical analysis of the problematic notion and offers. The regulatory framework currently implemented in India. The objective of this study is to compare the current regulatory framework in India with that of international jurisdictions. This will be achieved by analyzing legislations, precedents, and other pertinent sources in these jurisdictions. The main objective of this study is to offer suggestions for improving the existing regulatory framework and addressing its limitations.

REVIEW OF LITERATURE

Armaan Patkar5, a professional corporate lawyer based in India and affiliated with AZB Partners, has produced a comprehensive book that delves into the legal aspects and practicalities surrounding insider trading. The author has provided a comprehensive analysis of the theoretical foundation of insider trading and the operational framework of its legal and practical aspects. The author has conducted a thorough analysis of the idea of insider trading and offers an explanation for the regulation of this form of white-collar crime. The SEBI (Prohibition of Insider Trading) Regulations, 2015 have been thoroughly examined by the author, who has presented a comprehensive analysis along with relevant contextual information. In addition to providing information on domestic legislations, guidance notes, case laws, and practice, the book also includes a study of foreign law and jurisprudence pertaining to insider trading regulation.

In their scholarly work, King et al. examined the extent of insider trading regulation and the potential negative implications it can have on financial markets. The significance of regulatory involvement has been underscored, supported by empirical evidence derived from the United Kingdom and the United States. A further aspect of consideration pertains to the disruptive impact of insider trading on the equitable nature of capital and financial markets, resulting in non-insider traders experiencing unfavorable outcomes in their investment endeavors. The offered evidence in this document unequivocally demonstrates that those with privileged access to information receive substantial advantages that endure much beyond the point of knowledge disclosure. The essay offers a comprehensive analysis of insider trading, supported by empirical evidence. C.B. Bhave has made attempts to address the factual inaccuracies pertaining to the narrative surrounding the Securities and Exchange Board of India's (SEBI) capacity and endeavors in mitigating insider trading. The author has examined the semantic connotations of the term 'insiders' and its contrasting relationship with the term 'person' as delineated in the General Clauses Act of 1897. The author proceeds to provide further explanation regarding the Insider Trading Regulations of 1992, highlighting its proper implementation. The scope of the study encompassed financial institutions and corporations. This article offers a more comprehensive understanding of the legislative intent of SEBI in relation to the first formulation of Insider Trading Regulations in India. It emphasizes the importance of SEBI's responsibilities to conduct meticulous deliberation and examination in fulfilling its duties. The author additionally highlighted, in a humorous manner, that several perspectives put up in articles accusing SEBI of negligent conduct have inaccurately attributed the name of the (previously incumbent) Chairman of SEBI.

Nancy Reichman (2008) examines the correlation between insider trading and legal regulations. The author has presented a comprehensive analysis of insider trading, examining several areas including the categorization of offenders under American Law, common patterns of infractions, and specific considerations related to the nature of deal-making in the securities industry. The author has proposed a hypothesis regarding the influence of the securities business culture on the emergence of deviant sub-cultures. These sub-cultures have contributed to the persistence and exacerbation of enduring problems, necessitating strong regulatory intervention. The essay also highlights the legal and ethical uncertainty surrounding the legislation pertaining to insider trading, particularly within the United States.

Dennis W. Carlton and Daniel R. Fischel have conducted a comprehensive analysis of insider trading. The research conducted by the authors encompasses comprehensive analyses of diverse facets pertaining to insider trading. The writers have endeavored to elucidate the underlying reasoning behind individuals' involvement in insider trading. Furthermore, they have carefully examined the extent of privileged knowledge within corporations and the justification behind its allocation to key managerial professionals as opposed to shareholders. The writers have also synthesized the primary arguments presented against insider trading, including its moral implications and the assertion that insider trading is ethically objectionable. Additionally, they address the allure of riskier investments and other relevant factors. The essay offers a comprehensive analysis of insider trading tendencies. According to Rider et al. (2010), the issue of market abuse and insider dealing has consistently been a significant worry for individuals operating inside the financial sector. The focus of their work lies on the recent developments in the market security regulations of both the United Kingdom and the European Union. This raises the inquiry into the definition of conventional and rational business practices, as well as the

classification of activities that may now be deemed as market abuse. The book has thoroughly examined the potential consequences for market regulations in the post-Brexit era and proposes the development of a novel corporate governance code.

Allen Strudler and Eric Orts have advanced the discourse surrounding the problematic nature of insider trading within the financial markets. Based on deontological moral principles, a comprehensive theory has been created that posits the existence of a flawed selection system in determining the ethicality of insider trading. It is argued that although individuals possess a robust moral conscience and endorse penalties for insider trading, the rationales for these punishments remain ambiguous and lacking specificity. Furthermore, these arguments fail to withstand scrutiny when compared to the moral grounds justifying insider trading.

Stephen M. Bainbridge12 has also expressed his viewpoint, contending that insider trading is not entirely detrimental and has predominantly unfavorable repercussions due to a failure to recognize its potential long-term advantages. Furthermore, he posits that the act of engaging in insider trading does not result in the creation of any victims. Stephen M. Bainbridge13 also implies that the regulation of insider trading is weak due to its purported goal of equalizing the securities market, a notion he deems overly idealistic.

Anitha L.P.14 has endeavored to present a range of justifications for the necessity of curbing insider trading through her diligent efforts. The author's research elucidates the issue of information parity and the unethical manipulation of information to exploit the socioeconomic hierarchy of ordinary investors, which is seen highly condemnable. Anitha

L.P. undertakes a comparative analysis, examining the historical context of insider trading laws in the United States, and posits that emerging economies, such as India, might derive valuable insights from the American experience. The recommendation emphasizes the importance of India establishing a strong and adaptable regulatory framework, drawing on its exposure to the US and other international markets. This is seen as crucial for India to remain competitive with other jurisdictions in the period of globalization.

OBJECTIVE OF THE STUDY

- The primary objective of this study is to enhance our understanding of insider trading by analyzing its conceptual framework and associated theories.
- In order to examine the evolution of insider trading laws in India, it is imperative to delve into the historical trajectory of this regulatory framework.
- The objective of this study is to analyze the regulatory framework implemented in India for the purpose of overseeing insider trading activities, as well as to identify and comprehend any deficiencies within this model.
- In order to conduct an analysis of the historical development and regulatory frameworks in the United Kingdom and the United States, it is necessary to examine the many models that have been implemented.
- In order to develop recommendations for the future of insider trading legislation in India, it is imperative to engage in a comprehensive analysis of the existing framework and its effectiveness.

STATEMENT OF PROBLEM

Within the realm of enhancing the integrity of the securities market, both domestically and internationally, the ongoing concern of insider trading necessitates a comprehensive examination. This examination aims to enhance investor trust, facilitate investment activities, and eradicate any practices that undermine the principles of a fair-market economy. India has had a notable number of cases pertaining to insider trading, with a consistent upward trend in their occurrence. The Securities and Exchange Board of India (SEBI) has made notable endeavors in its endeavor to mitigate the occurrence of insider trading. Nevertheless, SEBI has certain limitations that hinder its ability to fully realize its potential as a quasi-judicial regulator of the securities market. The legislation and enforcement mechanisms in place are not on par with those observed in the United States or the United Kingdom. The data has corroborated the aforementioned information. The purpose of this study is to analyze the notion of insider trading and utilize secondary sources to offer recommendations that can contribute to the enhancement of the Indian regulatory framework on insider trading, with the aim of reducing this unethical practice.

HYPOTHESIS

Enhanced regulation is necessary to ensure the protection of investors' rights and interests in both global and domestic securities markets, specifically in relation to the practice of insider trading. Despite the presence of a primary market regulator and the implementation of legislation such as the Securities and Exchange Board of India (SEBI) and the 2015 SEBI legislation on the prohibition of insider trading, there remains a deficiency in effective deterrent and enough enforcement mechanisms to mitigate the rising occurrences of insider trading.

RESEARCH QUESTIONS

- To what extent has the Indian regulatory approach demonstrated efficacy thus far What are the regulatory models utilized in the United States and the United Kingdom, and how do they differ from the regulatory model applied in India?
- What potential modifications can be implemented to enhance the efficacy of the regulatory framework in India?

SCOPE OF STUDY

The study is confined to the examination of the idea of insider trading. This paper examines the phenomenon of insider trading in securities markets, focusing specifically on the regulatory frameworks in India, the United States, and the United Kingdom. The present study will draw upon the extant literature concerning the notion in order to achieve the intended aims.

RESEARCH METHODOLOGY

The research conducted in this study has utilized doctrinal and analytical methodologies, predominantly drawing from secondary sources such as court decisions, laws, books, commentaries, scholarly publications, research papers, blogs, and other relevant materials.

INSIDER TRADING AND ITS IMPETUS

In the given scenario, two companies, namely Company ABC and Company XYZ, exhibit significant

similarities in various aspects. However, it is noteworthy that the charter of Company ABC explicitly includes a provision that strictly prohibits any trading of its shares in the public market based on inside (non-public) information. In accordance with its internal policy compliance, Company ABC mandates that all employees must disclose their trades. These disclosures are thereafter subjected to an audit by an independent accounting firm to verify adherence to the internal insider trading policy.

Based on the aforementioned example, it can be inferred that inside knowledge refers to confidential and exclusive data, and safeguarding it is advantageous for most companies in the long term. Insider trading is characterised by the acquisition or sale of publicly traded securities of listed firms while possessing non-public material knowledge about the company.

Insider trading is a morally reprehensible practise that pertains to securities and investment law, and has significant implications for the fundamental principles of a free-market economy when engaged in. The fundamental nature of a liberal economy is compromised when the benefits of the securities market are limited to a specific social class, and furthermore, when such benefits are distributed in an unjust manner. To provide an illustration, let us examine the example of Raj Rajaratnam15. Mr. Rajaratnam, a Sri Lankan-American individual, is a former hedge fund manager and the founder of the Galleon Group, a hedge fund management organisation located in New York. The individual in question was found guilty of charges related to conspiracy, fraud, and the illicit exchange of insider knowledge. Notably, his co- conspirators were all prominent executives inside internationally recognised multinational organisations. In the year 2011, the individual in question was apprehended and subsequently convicted for the alleged offences levelled against him. As a result, he received a prison sentence of eleven years, which remains the most extensive term of incarceration ever imposed for the offence of insider trading. The arrest of the individual in 2011 had significant long-term and transnational consequences. Specifically, it led to a sharp decline in the Sri Lankan stock market, causing substantial financial losses for the general investors within the Sri Lankan population. The number 16 is the subject of discussion.

It can be argued that the misuse or misappropriation of unpublished, non-public, and privileged information by corporate insiders creates a significant disadvantage for general investors who lack access to such information. This includes material information about the organization's affairs as well as price-sensitive stock information. This chapter will analyse the conceptual boundaries of insider trading, the ethical and moral considerations associated with it, the various ideas surrounding this practise, and the necessity for regulatory measures.In a conventional context, the term "inside information" typically denotes knowledge that pertains to the financial or market status of a firm. This information is not acquired through public disclosure, but rather originates from internal sources or individuals who have access to such information. It is crucial to acknowledge that those who possess such knowledge are those who have a responsibility to their organisation to preserve and uphold the secrecy of the information. In order to enhance comprehension, the focus is directed towards two pivotal terms, namely "non-public" and "material".

The initial component discussed in this context is referred to as "non-public." Typically, the range and magnitude of confidential information align with the parameters outlined in the concept of "publication." The 2015 Regulations of SEBI17 employ the terminology "unpublished," which is interpreted as referring to material that is not readily available to the public. Typically, this inquiry pertains to matters of factual nature. The number provided is 18.

The materiality of information is a significant factor in determining its classification as inside information. In this context, the concept of materiality becomes relevant. The purpose of this examination is to assess if the fundamental materiality of the information is substantial enough to impact the investment decisions of any stakeholders. In essence, this indicates whether the quality of the information in issue is significant enough to have an impact on the price and other material elements, such as market position and volatility, of the securities involved. Consequently, this necessitates that public investors possess the necessary knowledge to make well- informed trading decisions. The number provided by the user is 19. In more accessible language, materiality can be ascertained by assessing and projecting the potential impact of the information. The analysis of this might be conducted by assessing the retrospective impact or by referring to the expected impact. This entails the utilisation of quantitative analysis techniques and the formulation of market estimates. Several jurisdictions, like India (reference 20) and Malaysia (reference 21), have established indicative Brightline tests to achieve a similar objective.

The two aforementioned factors encompass the essence of information, which is a crucial component of insider trading. However, a further crucial element of the offence of insider trading pertains to the individuals commonly identified as "insiders".

Insiders encompass a diverse range of personnel who constitute the internal administrative framework of a corporate entity. The word often refers to individuals in senior management positions, such as high-ranking executives and directors. These individuals have unrestricted access to company information and typically possess the necessary expertise and capacity to evaluate the significance of the information. It is reasonable to assume that these individuals typically possess privileged access to internal information. Indeed, certain jurisdictions even hold such a presumption.

Moreover, those who have connections or associations with a firm may also be classified as insiders. It can be argued that individuals in question may have access to confidential information either through their employment within the organisation or through their professional or business affiliations with the organisation. In this context, those with privileged access can be categorised into two distinct subcategories. Firstly, the individuals who possess direct access to such privileged knowledge. These individuals may be commonly referred to as primary insiders. The second subtype comprises those who obtain knowledge from main insiders due to their lack of direct access to such information. These individuals may be commonly referred to as secondary insiders. In the United States, those who possess privileged access to non-public information are commonly referred to as "access insiders" within the context of main insiders.

By combining the conceptual essence of privileged information and individuals with access to such information, it may be inferred that these fundamental elements collectively comprise the principal component of insider trading. Another significant aspect of insider trading is to the act of engaging in trading activities.

The act of imparting such knowledge to individuals can be denoted as "tipping" or "giving a tip," while the individuals who provide this information and those who receive it are commonly referred to as "tippers" and "tippees," respectively. In the context of India, the 2015 Regulations23 classify individuals with privileged access to non-public information into two overarching groups. Initially, individuals who are currently or have been affiliated with a corporate entity within the preceding six-month period, sometimes referred to as related persons.

In order to derive advantages from privileged knowledge, a reciprocal exchange procedure must be in

operation. The supplied pictures serve the purpose of elucidating the function played by all the aspects that have been addressed thus far.

In the given scenario, the Chief Executive Officer (CEO) of an engine manufacturing company discloses confidential information to a close acquaintance who happens to be a significant shareholder in the CEO's company. The information pertains to an impending acquisition of the company by a larger entity, which is expected to positively impact the stock price of the acquiring company. It is important to note that this disclosure occurs prior to the public announcement of the acquisition.

Subsequently, the friend proceeds to divest his majority stake in the company and acquires a significant portion of the prospective parent company. In this manner, the acquaintance greatly benefits and avoids the potential damage that would have been incurred had they not had prior information.

Example 2: A public servant utilises their understanding of a specific legislation concerning companies engaged in the exportation of sugar, with the intention of promoting advantageous outcomes for the industry. Following this, he acquires shares in the dominant companies involved in the exportation of sugar prior to the dissemination of information on the aforementioned regulation.

In a board of directors meeting, a director of Company X becomes aware of the presence of faults in the company's manufactured products. Consequently, the director decides to divest their stock and depart from the company. Subsequently, he proceeds to engage in short selling of the shares of his previous employer and discreetly discloses the identified flaws to a prominent newspaper, which subsequently disseminates the information to the public. Ultimately, the company's stock price experiences a significant decline, so enabling the individual to derive gains by engaging in short selling of the company's stock.

In all three aforementioned situations, three significant things must be taken into consideration. Firstly, the presence of confidential knowledge that is both not publicly available and significantly impacts the value of assets. Furthermore, the existence of individuals with insider status in diverse capacities. Ultimately, the employment of aforementioned privileged knowledge by these individuals to obtain financial advantages, whether in the short or long run. Taken together, these findings collectively indicate the prevailing trend observed in the phenomenon of insider trading.

Moreover, individuals with privileged access have the ability to foresee the impact of the dissemination or unearthing of information inside the public sphere. The dissemination of favourable information is expected to have a favourable impact on the stock market.

The price and information, which include negative characteristics, can be utilised to mitigate losses by divesting stocks or, in more severe cases, can be exploited for the purposes of blackmail or engaging in short selling of the security.

The impacts resulting from the disclosure of confidential information undermine the fundamental principles of securities regulation, as advocated by the International Organisation of Securities Commissions (IOSCO)24, which include: 1. Safeguarding the interests of investors2. It is imperative to guarantee the fairness, efficiency, and transparency of markets.

The aforementioned action also undermines the primary goal of the Securities and Exchange Board of India (SEBI) Act 1992, which is to safeguard the welfare of investors in securities. The numerical value provided by the user is 25. In a broad context, it significantly erodes the fundamental principles of corporate secrecy and trust, and undermines public belief in the integrity and equity of both domestic and global securities markets. As a result, it warrants stringent regulation and, if deemed necessary, appropriate penalties.

Victims of insider trading:

In their scholarly contributions, Allen Strudler and Eric Orts have advanced the argument that individuals should not be subject to punishment for their actions if these actions do not cause harm to others. This viewpoint is underscored as a significant focal point in their work. The number 31 is the natural number that follows 30 and precedes 32. In colloquial language, an individual who experiences harm as a consequence of an immoral or unethical action is commonly referred to as a victim.

Given the prevailing narratives that portray insider trading as a terrible, unethical, and immoral practise, it prompts an inquiry into the identities of those who bear the brunt of its consequences. This study aims to ascertain the individuals affected by insider trading.

In certain countries within capitalist cultures worldwide, individuals are recognised as victims of insider trading and are sometimes granted the ability to pursue legal action. The numerical value provided by the user is 32. In the context of India, it is important to note that insider trading does not afford individuals the ability to pursue legal action. Instead, it is often perceived as a practise that harms the overall market. The number 33.

In contrast, Stephen M. Bainbridge contends that insider trading does not result in any identifiable victims. The numerical value provided by the user is 34. While acknowledging the potential negative impact of insider trading on investors, such as influencing them to trade at unfavourable sale or buy prices, the individual maintains the perspective that this outcome is merely coincidental due to the anonymous matching of trades on exchange trading platforms. Moreover, in cases where an individual with privileged access to non-public information engages in the acquisition of shares, it might be argued that any contemporary trader, without awareness of the insider's advantage, would inadvertently accumulate equivalent profits at the expense of the selling investor. Likewise, contemporary trade practises would result in equivalent losses for any individual engaging in transactions with insiders, mirroring the aforementioned scenario. Hence, it is reasonable to assume that during routine company operations, when transactions occur on a daily basis, the involved parties are generally oblivious of each other's identities and autonomously make purchasing decisions. Engage in the sale of securities without possessing any knowledge or awareness that an individual with privileged information may potentially be involved as the opposing party. Building upon this point, it is important to consider the emergence of an unjust presumption, namely, that every investor can unintentionally be categorised as a target of insider trading, with the resulting harm inflicted upon these individuals stemming from the failure to disclose privileged information.

Nevertheless, the implementation of mandatory disclosure for all information is not a viable option due to its impracticality and the challenges associated with enforcement. Furthermore, such a measure would not effectively address the issue of information parity.

Given the aforementioned points, the concept of achieving a fair playing field appears to be overly idealistic and far-fetched. In the realm of financial markets, a perpetual presence of both winners and losers can be observed.The number 35 is the value being discussed. If one were to posit that insider trading has the propensity to deceive investors through various means, it is conceivable that there exist other investors who opt to engage in trading activities at a price that closely aligns with the true value of the security. This would significantly impede the examination and analysis of the influence that insider trading has on the collective conduct of public investors. To a certain extent, it can be argued that the concept of a fair and equitable environment does not adequately assist in identifying the individuals who fall prey to insider trading.

India and Insider Trading: Development & Regulatory Aspects and a brief history of the Securities Market in India:

Historical evidence indicates the absence of contemporary office spaces or rentable conference rooms during a certain period. During the mid-18th century, stockbroker meetings were commonly held beneath banyan trees in close proximity to the town hall. Currently, the identical trees can be found in close proximity to the Bombay Stock Exchange (BSE), specifically situated at the central area of the Horniman Circle.

During the historical period of the 1840s, there was a scarcity of officially acknowledged individuals engaged in the profession of stock brokering. Only a small number of six stock and share brokers were acknowledged by the bank and merchants in Bombay. In 1887, a significant transformation occurred. The formal establishment of the Native Share and Stock Broker Association of Bombay took place.

Subsequently, this Association underwent a rebranding process and emerged as the inaugural stock exchange in India. The entity underwent a renaming process and was subsequently referred to as the Bombay Stock Exchange.

Given the growing scale of securities company operations, the implementation of a regulatory framework became imperative. The fulfilment of this requirement was achieved with the enactment of the initial legislation aimed at regulating stock exchanges, specifically known as the Bombay Securities Act. The legislation was implemented with the purpose of overseeing and managing agreements that were employed for the exchange and acquisition of securities within the urban centre of Bombay and its surrounding regions in the Bombay Presidency. Nevertheless, the Bombay Securities Act exhibited a lack of foresight and vision in its role as the principal overseer of securities, as it was plagued with deficiencies and vulnerabilities. Unrecognised stock exchanges and individuals exploited these vulnerabilities in order to engage in economic activities through the utilisation of forward contracts. The aforementioned circumstances led to significant financial losses for investors and the securities market throughout the period spanning from 1928 to 1939. This served as a persuasive rationale for the government to designate the individual. The Morrison Committee, established in 1936, was tasked with conducting an analysis and evaluation of the legal framework and regulatory practises governing stock exchanges, with the aim of identifying and addressing any existing deficiencies. The numerical value provided by the user is 43.

However, an additional obstacle emerged in the year 1939, in the shape of the global conflict known as World War II. During World War II, the Indian Government made the decision to prudently utilise and preserve its limited capital resources in order to support their British Colonisers and contribute to both the war effort and national development in a sustainable manner. The implementation of this measure was supported by the Defence of India Act, 1939, which stipulated that any capital expenditures must have explicit clearance from the government beforehand. One noteworthy comment regarding the Defence of India Act, 1939 is that its restrictions remained in effect until 1947 and served as the basis for the subsequent Capital Issues (Control) Act, 1947.

The Capital Issues (Control) Act of 1947 served as the principal legislation pertaining to the control and regulation of securities. The establishment of the former office of the Controller of Securities was also facilitated. The regulatory oversight of securities encompassed several critical domains, overseen by the office of the Controller of Securities. These areas of responsibility included the issuance of securities, the monitoring and supervision of stock traders, and other related matters.

Meanwhile, the Indian Government directed its attention towards another significant objective that

would establish the foundation for the initial centralised legislation. The Government established an expert group, led by P.J. Thomas, who served as the economic adviser for the Ministry of Finance. The team was tasked with formulating a comprehensive legislation to centrally regulate stock market activity. The subsequent section of this chapter will provide a more comprehensive analysis of the P.J. Thomas Committee Report. However, it is pertinent to highlight some key findings regarding the necessity of a regulated securities market as follows: i. The Indian Government exhibited minimal interest in the operations of stock exchanges.

The Government failed to comprehend the significance of adequately regulated stock exchanges and their subsequent importance within the broader context of regulated stock markets. iii. The stock market constituted an integral and inseparable component of the domestic financial system. The Committee also intended to put forth proposals regarding the implementation of transparency measures within companies. This was contingent upon the provisions outlined in Section 195 of the Companies Act, 1948 (UK), which mandated that all companies must uphold a register. This register would encompass comprehensive details pertaining to each director, including the quantity, description, and value of shares and debentures held by the corporation and its affiliated entities.

Entities or subsidiaries that are owned by all of the aforementioned directors. According to Section 195, it was mandated that the register must contain records of all transactions involving the acquisition or disposal of shares or debentures by directors. Furthermore, the register would be subject to examination by all members of the firm. The inclusion of a provision into the Indian Companies Act was advocated by the Committee, with the additional requirement for directors to notify the company of any transactions of this nature. The Committee was also the pioneer in suggesting the use of punitive measures, such as monetary fines or incarceration, for directors of publicly traded corporations. The Committee also made use of Section 96A (3) of the Canadian Companies Act, 1934. Furthermore, it is worth mentioning that the committee deliberated on the proposition that directors of publicly listed companies should be prohibited from engaging in personal speculation, whether directly or indirectly, in shares or other securities of the company they serve as directors for.

The 1952 Company Law Committee made significant contributions towards the development of insider trading legislation in India by proposing revisions to the Companies Act of 1913.

INSIDER TRADING REGULATION IN THE UK AND THE US: A COMPARATIVE ANALYSIS

This chapter will concentrate on analysing the regulatory models that are commonly observed in the United States of America and the United Kingdom. Throughout the evolution of the legislative framework in India, certain parts of the law have been significantly influenced by the jurisprudence of both the United States and England. The regulatory framework concerning insider trading in India has predominantly drawn upon primary and secondary sources originating from the United States and the United Kingdom.

The United States:

In order to lay the groundwork, it can be asserted that the United States (hereafter referred to as the "US") has played a leading role in the advancement of regulations pertaining to insider trading. When comparing different countries, it becomes evident that the United States possesses the most

comprehensive and stringent regulatory framework for preventing insider trading. The numerical value provided is 75. The evolution of the regulatory framework on the prohibition of insider trading has been significantly influenced by the Securities and Exchange Commission (hereafter referred to as "SEC") and the US Courts. Significantly, it is worth acknowledging that the insider trading theory has seen notable transformations in legal theory, mostly influenced by the contributions of both the US Courts and the Securities and Exchange Commission (SEC). These entities have played a crucial role in shaping the evolution of insider trading regulations, surpassing the extent of changes witnessed in other corporate laws over the past century. The numerical value provided is 76.

Prior to proceeding, it is imperative to acknowledge a fundamental divergence pertaining to the creation and implementation of insider trading laws in the United States and India. There are major differences in the functioning of insider trading regulations in both countries. The initial element of differentiation pertains to the structure of the legal framework. In India, the legislation governing insider trading draws authority from a codified collection of regulations established by the Securities and Exchange Board of India. Conversely, in the United States, the regulatory framework is rooted in case law that has evolved from a broad anti-fraud provision. The numerical value provided by the user is 77. Furthermore, the body of case law pertaining to Indian insider trading has seen significant development and has proven valuable in elucidating key concepts of the legal framework. The numerical value provided is 78.

It is noteworthy to mention that there exists a significant disparity in the regulatory framework governing insider trading in India and the United States. In India, the ban of insider trading is grounded in the exploitation of information asymmetry between insiders and the general public, without necessitating proof of fraudulent intent or violation of fiduciary obligations by the insiders. Conversely, the prevailing insider trading law in the United States derives its justification from the violation of the fiduciary obligation owed by the individual possessing privileged information. This argument is essentially grounded in two ideas, namely the "disclose or abstain" theory and the "misappropriation" hypothesis.

The origins of insider trading legislation in the United States can be traced back to the period prior to the 1900s. The prevailing belief was that the fiduciary duties of officers and directors of corporations did not encompass their personal interactions with investors or other individuals, even if they could potentially exploit information acquired in their official capacity during such interactions. Nevertheless, it is important to acknowledge that this particular theory possesses a restricted scope of relevance, primarily in instances involving genuine acts of fraud, such as the deliberate misrepresentation or dishonest suppression of significant facts. In the case of Carpenter v. Danforth80, it was established that an insider can only be held liable if they engage in actions that obstruct or hinder the plaintiff from investigating or conducting further inquiries into the company's affairs or its potential for dividend payments. The number 81 is a positive integer. Following the 1900s, it may be observed that the United States courts consistently rejected the notion of a fiduciary obligation that company leaders and directors owed to shareholders in their personal transactions. The numerical value provided is 82. In the present situation, the Supreme Court of Georgia has proposed a new advancement. In the legal matter of Oliver v. Oliver83, the Supreme Court of Georgia expressed its viewpoint that when a director has information that enhances the value of the stock due to their official position, they are obligated to hold that information in a fiduciary capacity, for the advantage of the shareholders.

An examination of the aforementioned viewpoint establishes the fundamental comprehension that the Court held the belief that the directors and corporate officials had an obligation to divulge the information to the shareholders. This obligation arose from the fact that the directors and officers were entrusted with the information and were obligated to act in the best interest of the specific shareholder.

It is crucial to bear in mind that a significant portion of the regulatory framework governing insider trading in the United States has been established through legal precedents. Hence, it is imperative to examine these examples in order to develop a more comprehensive comprehension of the regulatory structure. The analysis begins by considering the legal case of Strong v. Repide.The numerical value provided is 84. In this particular instance, the practise of insider trading was officially declared unlawful for the first time within the legal framework of the United States. This marked the initial instance in which explicit acknowledgment was granted to the concept of fiduciary duty. According to the US Supreme Court, it is incumbent upon a corporate executive to reveal their identity and any confidential information they possess to a counterparty while engaging in the purchase or sale of their company's stocks. This case examined the legal obligation of corporate directors to act in the best interests of their shareholders by disclosing any pertinent information regarding the value of the firm's shares prior to acquiring shares from a shareholder.

Following that, the Securities and Exchange Act of 1934 was enacted. The primary objective behind the implementation of this legislation was to regulate the extent of market abuses that were instrumental in causing the market crisis of 1929. It is noteworthy that this legislation represents the initial formal enactment globally addressing the issue of insider trading. In restricted circumstances, Section 16(b) explicitly barred corporate insiders, including directors, officials, and individuals holding more than 10% of the shares, from realising short swing profits (profits obtained within a period of less than six months) in the stock of their own corporation. Section 10(b) of the relevant legislation prohibits individuals from using or deploying any form of manipulative or misleading mechanism or contrivance in relation to the acquisition or disposition of stocks, in violation of any rules and regulations established by the stocks and Exchange Commission (SEC). The year 1942 marked a significant turning point in the Securities and Exchange Act of 1934. Section 10b-5 was incorporated into the legislation. The aforementioned function expanded the scope of the anti-fraud laws outlined in the act to encompass individuals involved in the acquisition of securities, as opposed to its previous limitation solely to brokers and dealers. The numerical value provided by the user is 86. Curiously, the aforementioned regulation originated from a dialogue between the Director of the Trading and Exchange Division of the Securities and Exchange Commission (SEC) and Milton Freeman, a distinguished senior partner at a prominent law firm located in Washington, United States. Freeman was apprised by the Director that the president of a corporation located in Boston, Massachusetts was engaging in the acquisition of shares from Freeman's company's shareholders at a reduced valuation. This acquisition was facilitated by the president's dissemination of misleading information to the shareholders, suggesting that the company's performance was subpar. However, it is important to note that the actual outlook for the aforementioned company was highly promising. Consequently, a preliminary regulation was formulated and a meeting was requested with the Securities and Exchange Commission (SEC), during which a statement regarding the proposed regulation was presented. Notably, the SEC accepted the statement without engaging in any deliberation. The numerical value

provided by the user is 87. The following excerpt presents the wording of Rule 10b-5, which has been included for the purpose of enhancing comprehension of the provision.
The utilisation of manipulative and misleading tactics. It is deemed illegal for any individual, either directly or indirectly, through the utilisation of any means or instrumentality of interstate commerce, or through the use of the postal service or any facility of a national securities exchange, to engage in the following actions: (a) Employing any device, scheme, or artifice with the intention to deceive or defraud. (b) Making any false statement regarding a significant fact or omitting the disclosure of a material fact that is necessary to ensure about the smooth operation of a corporation.
In a broad sense, Sections 10(b) and 16(b) and Rule 10b-5 can be interpreted as comprehensive anti-fraud laws that prohibit the involvement in fraudulent activities or misrepresentation in relation to the buying, selling, or trading of securities.
Nevertheless, although insider trading is not explicitly addressed, the clauses' wording provided sufficient material to further the evolution of insider trading jurisprudence in the United States. Under the aforementioned provisions, both the Securities and Exchange Commission (SEC) and the United States Courts have consistently recognised and enforced a legal obligation on corporate insiders, specifically officers, directors, or controlling stakeholders, to disclose material information that they possess due to their position. This duty applies as long as the information is not already known by the counterparties involved and has the potential to impact their investment decisions. Non-disclosure of material information can be interpreted as fraudulent behaviour in accordance with Rule 10b-5.

United Kingdom:
The significant influence of English law on the evolution of Indian law is universally acknowledged. The aforementioned legislation has been the basis for numerous statutory enactments that continue to be in effect in present-day India. The Indian courts have frequently drawn upon English jurisprudence in order to administer justice. The Companies Act in India can be traced back to the English Company law and its evolution during the colonial era. The progression of insider trading legislation in the United Kingdom had a somewhat slower pace of development in contrast to that of the United States. Indeed, prior to the conclusion of the Second World War, the practise of individuals engaging in the purchase and sale of stocks and shares in a company, utilising exclusive information possessed solely by the directors and officers of said company, was widespread and widely regarded as entirely permissible. Subsequently, the practise commonly referred to as "insider dealing" in the United Kingdom started to be regarded as inappropriate and morally questionable. As a result, initial measures were implemented to establish legal responsibility for such conduct under the Companies Act of 1948 in the UK.
The progression of insider trading regulation exhibited a positive trend approximately ten years subsequent to the implementation of the Securities and Exchange Act of 1934 in the United States. The establishment of the Committee on Company Law in 1945 was to undertake a comprehensive assessment and reassessment of the existing framework of company law inside the country. The Committee asserted that engaging in directors' dealing based on privileged knowledge was unequivocally inappropriate. In this regard, the Committee made a recommendation for directors to disclose their holdings, without explicitly advocating for a prohibition on insider trading. is generally expected that they will behave in the best interest of the company and its shareholders. It would be deemed impractical to propose that they were thus prohibited from engaging in such a transaction.

However, the circumstances vary where the activity is based not on their overall awareness, but rather on specific information available to them, which was not known to the majority of shareholders at that time. One of the most effective measures to prevent illegal transactions by directors and mitigate unfounded suspicions of such transactions is to enforce comprehensive disclosure requirements for all their dealings involving shares and debentures of corporations.The user's text does not provide any information to be rewritten in an academic manner.

The suggestion put out by the Committee on Company Law Amendment was appropriately integrated into Section 195 of the Companies Act, 1948 in the United Kingdom. This provision mandates that firms must keep a register that includes information regarding the shares or debentures held by each director of the company, as well as any shares or debentures held by the director in the company's subsidiaries, holding company, or fellow-subsidiaries. This encompasses the ownership of shares and debentures that are held in a fiduciary capacity for the aforementioned director, and in which he possesses the ability to acquire ownership rights, regardless of whether payment has been made or not. Additionally, it was necessary for the register to document all transactions involving shares or debentures, encompassing specific information such as the transaction date and the corresponding price or other form of compensation. The aforementioned register was required to be maintained at the official premises of the corporation and made accessible for examination during regular operating hours. Additionally, the register was subject to scrutiny by the UK Board of Trade, which had the authority to request a duplicate of the aforementioned document. The consensus reached by the Company Law Committee in 1962 aligns with the observation made by the Committee in 1945. Furthermore, it extended its recognition to the necessity of prohibiting certain types of insider trading that surpass the scope of Section 195 of the Companies Act of 1948. The committee deliberated on the potential of the law of fiduciaries to establish a prohibition on insider dealing. It is observed that a director does not have a fiduciary obligation to individual members of their company, but rather to the company itself. Furthermore, it can be inferred that no such duty is owed to those who are not members of the company. The numerical value provided by the user is 95. The enactment of Section 25 of the Companies Act, 1967 in the United Kingdom was a direct response to the recommendations made by the Company Law Committee (1962). This legislative provision specifically targeted insider dealing in options by directors of an issuer. However, it is important to note that the UK did not implement a comprehensive ban on insider trading at that time.

This provision explicitly states that a director would engage in a penal act if they were to purchase the right to demand delivery or make delivery (or choose either option) of a specific number of shares within a designated timeframe and at a predetermined price during a given period. Engaging in a violation of this particular provision carries the potential consequence of criminal culpability, which may result in a maximum jail sentence of two years and/or a monetary penalty. Nevertheless, it should be noted that the provisions outlined in Section 25 were not applicable in the context of granting options to directors for the purpose of subscribing to shares or debentures of a corporation. Following that, the enactment of the Companies Act of 1980 in the United Kingdom criminalised the practise of insider dealing within the country.

Sections 68-73 of the 1980 Act encompass various provisions, one of which stipulates that individuals who are, or have been within the past six months, knowingly affiliated with a company, are prohibited from engaging in transactions involving listed securities of said company if they possess undisclosed price-sensitive information as a result of their affiliation.

During the time span from 1982 to 1986, the United Kingdom Government initiated a process of privatisation for many entities, including British Airways, Jaguar, British Gas, and other corporations. This incident brought the issue of insider dealing to the attention of the general public. Simultaneously, the Department of Trade and Industry, entrusted with the responsibility of conducting investigations in accordance with the Companies Act of 1980, faced criticism for its perceived inability to pursue alleged intricate insider networks. The numerical value provided by the user is 96. In response, the Government implemented the Company Securities (Insider Dealing) Act, 1985 (referred to as the "CS Act"), a comprehensive legislation aimed at mitigating the occurrence of insider dealing. The CS Act amalgamated legislative provisions pertaining to insider trading, incorporating the pertinent sections of the Companies Act of 1980. Insider trading, both by primary insiders (individuals affiliated with the company) and secondary insiders (individuals who obtain insider information from primary insiders), was effectively made illegal. Furthermore, it imposed a prohibition on individuals with insider knowledge from providing advice or inducing others to engage in insider trading, as well as from inappropriately revealing confidential information. It is noteworthy to acknowledge that in practical application, the legislation was inadequately formulated, resulting in increased challenges in the prosecution process.

In the process of transitioning into the European Union (EU) era, the Council of the European Economic Community reached a consensus in 1989 to adopt a directive aimed at harmonising regulations pertaining to insider dealing. The numerical value provided is 97. The Directive, which was introduced by the European Economic Community (EEC), established a minimum standard that all Member States of the European Union (EU) were required to adhere to when incorporating the Directive into their respective national laws. The numerical value provided by the user is 98. The scope of the term "Insider" was expanded by the Directive to encompass secondary insiders as well.

The integration of this provision occurred within Section 57 of the Criminal Justice Act of 1993. The Directive has provided a definition for the term "inside information" as follows: i. Information that is not known to the general public; ii. Information that is specific enough; iii. Information that pertains to one or more issuers of securities or one or more specific securities; and iv. Information that is likely to have a significant impact on the price of the security or securities in question.The numerical value provided by the user is 99.

In addition to establishing regulatory standards, the EEC Directive also made significant contributions to the future of insider trading regulation in the UK, which will be discussed below.

The regulation prevented individuals with privileged access to confidential information from engaging in the purchase or sale of transferable securities, either directly or indirectly through intermediaries. It also prohibited the disclosure of such confidential information to external parties, unless it was necessary within the scope of their professional responsibilities. Additionally, the regulation prohibited the utilisation of confidential information to provide recommendations for the purchase or sale of securities to third parties. The number provided is 100.

The restriction noted above was also expanded to include secondary insiders who knowingly acquired inside knowledge from primary insiders. The aforementioned rules were integrated into the legal framework of the United Kingdom with the enactment of Section 52.

The EEC Directive additionally mandated that every Member State appoint supervisory authorities with the appropriate investigative and disciplinary capabilities to effectively oversee and enforce the implementation of insider trading regulations. In the United Kingdom, the responsibility for this

undertaking was formerly delegated to the Department of Trade and Industry. However, in 2000, the Financial Services Authority (referred to as the "FSA") assumed this role, supplanting the former entit y. Subsequently, the Financial Services Authority (FSA) was succeeded by the Financial Conduct Authority (FCA) in 2013.

CONCLUSIONS AND SUGGESTIONS

Given the nature of the investigation, several conclusions can be derived. The phenomenon of insider trading is inherently problematic. Moreover, it possesses a perilous capacity to emerge as an even more formidable menace to the worldwide financial markets and the principles of a laissez-faire economic system. This section of the research aims to address the research inquiries outlined in Chapter 1 and serve as a concise overview of the investigation.

To provide further elucidation on the concept of insider trading and its associated ramifications, it is widely recognised throughout the general populace as a form of white-collar criminal activity. Insider trading refers to the practise wherein individuals such as directors, corporate officers, or those with access to non-public, price- sensitive information utilise this privileged knowledge to engage in trading activities involving securities of their respective companies. These individuals leverage their possession of insider information to make informed trades based on this internal knowledge. Insider trading elicits divergent perspectives, encompassing both proponents and opponents of the practise. The broader spectrum of viewpoints is in opposition to the practise. This narrative is predicated on the premise that insider trading is very unethical and inequitable. Furthermore, they advocate for the responsible use of the information parity that exists between individuals with insider knowledge and the wider public, emphasising that it should not be used for personal gain. Nevertheless, there exist narratives and perspectives that advocate for the practise of insider trading. These arguments are based on the premise that insider trading can potentially enhance market efficiency by ensuring that the price of a security aligns with what it would be if the inside information had been publicly published. The wider consensus, however, considers it excessively idealistic and even derides the notion of a fair and equitable legal framework. Furthermore, it is imperative to consider the enduring consequences of insider trading, including the potential erosion of investor confidence, should this practise be permitted to endure.

The presence of information parity between insiders and investors may result in investors refraining from participating in securities trading due to the perception that they will consistently experience unfavourable outcomes.

The term "inside information" mostly refers to sensitive information that is exclusively owned by a corporate entity. If this knowledge is consistently exploited for personal unethical gain by individuals, there is an increased risk of financial exploitation.

The significant impact of enterprises that provide public benefits going out of business is noteworthy. Additionally, this would result in a cascading impact that would extend to the disturbance of consumer behaviours and the overall economy.

The aforementioned implications encompass the fundamental factors that contribute to investor confidence as well. The stability of securities markets, both domestically and internationally, relies heavily on investor confidence. Preservation of investor confidence is of paramount importance to regulatory bodies, necessitating the implementation of robust measures to deter insider trading. This elucidates the rationale behind the necessity for regulatory measures concerning insider trading.

India has demonstrated a proactive approach in combating insider trading inside its home sphere. India has demonstrated significant advancements in legislation and enforcement throughout its history, spanning from the colonial era to the present day. Since its establishment, the Securities and Exchange Board of India (SEBI) has undertaken significant efforts to effectively curb and prevent instances of insider trading. Nevertheless, one may question whether this is sufficient. The present study has generated results based on doctrinal and statistical evidence, shedding light on the effectiveness of India's regulatory measures in curbing insider trading, particularly in comparison to the United States and the United Kingdom.

Suggestion:

The persistent presence of unfair practises in the market has consistently been a significant challenge for both central and sector-specific regulatory bodies, leading to disruptions in the fair functioning of the market. Examining the regulatory trajectory in the United States and the United Kingdom, both of which are recognised for possessing robust frameworks for the regulation of insider trading, it can be asserted that despite the diligent endeavours of regulatory bodies, the issue of insider trading continues to endure and presents novel issues as time progresses. The acquisition of non-public information confers a privileged status that numerous individuals have exploited to acquire unfair advantages and defraud the broader public, leveraging the asymmetry of information to their benefit.

The regulatory system in India deserves recognition for effectively addressing the issue of insider trading and proactively implementing measures to ensure the utmost safety and integrity of the securities markets. Despite

India has made great progress in addressing insider trading and securities fraud, despite the prevailing belief that the UK and the US have more efficient frameworks in this regard. However, it is important to acknowledge that India must consistently strive to enhance its control over individuals who pose a threat to investor trust in the domestic securities markets, in order to effectively dissuade such behaviour. The task at hand cannot be accomplished solely through the process of amending and making superficial modifications to the SEBI Regulations of 2015. To effectively combat insider trading and enhance deterrence, it is imperative to empower SEBI with stronger enforcement mechanisms. This entails granting the regulatory body greater discretion and equipping it with the essential instruments to safeguard investor confidence. Furthermore, it is imperative for SEBI to promptly undertake necessary measures and exercise reasonable caution to prevent wrongdoers from evading accountability as a result of delayed actions. The Securities and Exchange Board of India (SEBI) has faced repeated criticism over the same issue. The Securities and Exchange Board of India (SEBI) is required to implement stricter oversight over the activities of intermediaries, including brokers, investment advisors, and portfolio managers. The aforementioned facts indicate a pressing requirement for a revaluation of the existing legislative framework and the enhancement of enforcement capabilities. It is crucial to enhance the regulatory framework of the Securities and Exchange Board of India (SEBI) in order to effectively address the issue of insider trading.

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