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Role of SEBI in Regulating Market Manipulation and Insider Trading

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Abstract
India, a country full of opportunities, provides various scopes for investments for its investors within and outside India. However, out of the three routes being International, Foreign and domestic investment, the domestic mode of investment is the most preferred mode of investment. Within the domestic finance market, the Indian capital market, so called the stock market poses tremendous growth opportunities as well as attracting vulnerable scams and frauds posing critical risks to the investors. In order to monitor this, SEBI is the primary regulator of the Indian secondary market functioning since 1992. It has various roles starting from regulation of stock exchanges, market participant, stock brokers to imposing serious restrictions on unfair practices. The most condemning of those unfair practices include market manipulation and insider trading which has become a common practice among big players in market which is very evident from the major scams that have occurred down the history lane of Capital Market. So, this research paper aims to elucidate what major roles SEBI plays in regulation of these contemporary issues, its evolution and history of occurred scams, how there had been subsequent amendments and enactments in the legislation. It will also shed light what is market manipulation, how it occurs, what drastic effects does it pose on the market, what are the techniques involved in it, how SEBI as a regulatory authority takes measures to curb these unethical practices. Similarly, the phenomenon of Insider trading is also discussed, how is it legally tacked, what all measures have been taken, SEBI's role in its regulation to instill in investor's confidence. Furthermore, it makes comparative analysis of regulations in foreign countries as well as providing with analysis of scams and landmark cases. The study is descriptive in nature and the primary data is sourced from various available research papers.

Keywords: Investment, Stock market, SEBI, Unfair practices, Investor confidence

INTRODUCTION

The stock market in the Indian market is very vast containing a large number of investors, brokers, stock exchanges and other intermediaries, all regulated by the sole body of SEBI (Securities and Exchange Board of India), 1992. Owing to it's large market base and uncertain scenarios; it has been prone to may scams or big financial attacks in response of which a number of regulations has been empowered by the SEBI past these years since 1992.

Here, our topic primarily involves the two major issues that influence or violate the nature of stock exchanges, directly influencing the stock market in India. The first one being Market Manipulation and the second being Insider Trading in stock market. The market manipulation is a strategy whereby, some of the interested persons in mala fide intention supply or demand a particular security so as to drastically increase or decrease the price of that security in the designated stock exchange.[1] This process involves an unnatural influence over the natural pricing of the securities being traded, that are a deception on the eyes of the trader. Nonetheless, it has various other interpretations, any act can be termed as market manipulation when someone is performing any act prejudice to other investors but they have an unfair advantage and illicit benefit out of it. There might be many causative actions or precursors to it, but the most prominent one arises from the result of illegal insider trading in market.

Now, if we hover about insider trading, it is a legal strategy that affects the market for the fellow investors in a negative manner claiming biased benefits. It is a phenomenon that occurs when any unpublished price sensitive information is leaked from the company to any outsider who uses it as an investment tip rather, dirty tactics to gain unfair advantage from the market, causing a havoc and loss to the other investors.

SEBI as an oversight market regulator has been very much instrumental in curbing the limits of market manipulation as well as terminating the usage of insider trading in the Indian markets. In the year 1992, when SEBI was established as a market regulator, it laid done several guidelines for the prohibition of insider trading under the name of Securities and Exchange Board of India (Insider Trading) Regulations, 1992 which was later severally amended and made into as the SEBI (Prevention of Insider Trading) Regulations, 2002.

The objective of the paper is to provide a thorough and clear understanding of all the contemporary issues as well as the laws regulating the stock market with regard to market manipulation and insider trading. Discussions range from the inception of the regulatory framework by SEBI's history of evolutions from the major financial scams to the mandates by it to stabilize market through various powers vested within itself. The roles and responsibilities it need to furnish, analysing various surveys, providing empirical analysis particularly from the market manipulation and insider trading perspective along with a comparative analysis from international frameworks covering up the challenges and future perspectives it holds.

Evolution of SEBI's regulatory framework

The Securities and Exchange Board of India (SEBI) was not established overnight; it emerged as a necessary response shaped by the lessons learned from various financial crises, highlighting the urgent need for a dedicated regulatory authority. Prior to SEBI's establishment, the Indian capital market was regulated by the Controller of Capital Issues under the Capital Issues (Control) Act of 1947[2], a system that was fragmented and insufficient for the rapidly growing market[3]. In 1988, SEBI was set up as a non-statutory body to oversee the securities market, but it lacked the necessary powers to enforce regulations effectively. The situation changed dramatically in 1992, following the infamous Harshad Mehta scam[4], which involved large-scale manipulation of stock prices through fraudulent use of banking instruments. This scandal shook investor confidence and highlighted the urgent need for a strong, independent regulator. Consequently, SEBI was granted statutory powers through the SEBI Act, 1992, enabling it to regulate, supervise, and develop the securities market with a clear mandate to protect investors and prevent unfair practices.[5]

The regulatory framework continued to evolve in response to subsequent market crises. The Securities

[1] Anil Kr. Manchikatla, Rajesh H. Acharya, Insider Trading in India, 24 Journal of Finance Crime, 49 (2017)
[2] https://groww.in/p/sebi-securities-and-exchange-board-of-india
[3] https://en.wikipedia.org/wiki/Securities_and_Exchange_Board_of_India
[4] https://www.thesecuritiesblawg.in/post/historical-underpinnings-ix-enactment-of-sebi-act-1992
[5] https://deciml.in/blogs/the-scandal-that-transformed-and-empowered-sebi/

Laws (Amendments) Act of 1995 expanded SEBI's jurisdiction and enforcement capabilities, allowing for stricter oversight of market intermediaries. The late 1990s and early 2000s saw the introduction of electronic trading, dematerialization of shares, and the Depositories Act of 1996, which reduced settlement risks and improved transparency[6]. After the amendment of 1999, collective investment schemes were brought under SEBI except Nidhi, chit funds and cooperatives. Another watershed moment came with the Ketan Parekh scam in 2001[7], which exposed new forms of market manipulation such as circular trading and the misuse of the Badla system. In response, SEBI abolished the Badla system, introduced rolling settlement cycles to speed up trade settlements, and enhanced its surveillance mechanisms also This Scam prompted SEBI to enhance its surveillance capabilities and enforce stricter disclosure norms. It also led to the strengthening of the **Prohibition of Fraudulent and Unfair Trade Practices (PFUTP)** regulations and introduction of reforms in corporate governance through the Birla and Narayana Murthy Committees.[8]
The **IPO scam (2003–2005)** revealed loopholes in the allotment process and misuse of dematerialized accounts. SEBI responded with tighter Know Your Customer (KYC) norms, checks on multiple applications, and improved coordination with depositories like NSDL and CDSL.
Another turning point came with the **Satyam scam (2009)**[9], which exposed corporate fraud and auditor complicity. SEBI extended its regulatory scope to professionals like chartered accountants if involved in securities fraud. This era also saw the introduction of the **Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015** and a revamped **Insider Trading Regulation, 2015** based on the Sodhi Committee recommendations.
In recent years, the **Sahara case** and **Global Depository Receipts (GDR) manipulations** pushed SEBI to assert extraterritorial jurisdiction. Amendments empowered SEBI with **search and seizure powers**, enhanced information-gathering capabilities, and new dispute resolution mechanisms including mediation and arbitration. Each scam uncovered regulatory gaps, prompting SEBI to adapt and fortify the legal framework. From reactive enforcement to proactive regulation, SEBI's journey reflects its transition into a more dynamic, tech-driven, and investor-oriented watchdog.[10]
Over time, SEBI's powers have been further strengthened, enabling it to conduct search and seizure operations, impose harsher penalties for insider trading and market rigging, and regulate newer financial products and schemes. Each major scam, including the Satyam scandal and the Sahara case, has led to additional reforms, such as tighter corporate governance norms and the merger of the Forward Markets Commission with SEBI.
Today, SEBI stands as a robust and adaptive regulator, continually updating its framework to ensure market integrity, transparency, and investor protection in India's dynamic financial landscape.

SEBI is managed by its board of members, which consist of the following people:

- The chairman, who is nominated by the Union Government of India.
- Two members from the Union Finance Ministry.
- One member from the Reserve Bank of India.

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[6] Ibid 2
[7] https://lemonn.co.in/blog/bytes/uncovering-the-ketan-parekh-scam/
[8] https://the1991project.com/sites/default/files/2024-10/242-130580_01_Project_1991-rev_compressed.pdf
[9] https://indiansocietyforlegalresearch.in/2021/11/14/corporate-frauds-in-india-from-1992-2019/
[10] https://pwonlyias.com/mains-answer-writing/analyze-the-historical-evolution-of-the-securities-and-exchange-board-of-india-sebi-since-its-inception-what-role-has-sebi-played-in-ensuring-the-integrity-of-indias-financial-markets-15-mark/

The remaining five members are nominated by the Union Government of India, and out of them at least three should be whole-time members

Objective and Function of SEBI:
SEBI (Security exchange board of India) as a regulatory authority was established to protect securities market in India. It was set up to fulfill the needs of following three groups in the market:[11]

- **Issuers:** To provide a platform to issuers for achieving their goal of raising their finances effectively and efficiently.
- **Investors:** SEBI Main objective is to protect investors and their investment and also to supply accurate and correct information to them in order to prevent them from any hazardous activity.
- **Intermediaries:** To provide a Market which is competitive and professional.

As a regulatory authority SEBI can exercise several executive functions, according to its legislative capacity, SEBI can draft regulation for its intermediaries and securities market, and it conducts investigation and impose penalties in executive function. In its judicial capacity it passes orders and rulings[12]. SEBI's main objective is to ensure investor protection, and its investment. and to promote orderly healthy development of securities market in India.
The Twin objective of SEBI are described under the preamble of the securities and exchange board of India: As per SEBI preamble –
"….to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto"[13]

Along with this, here are the following objectives of SEBI:

1. **To protect the interest of investors in securities;**

SEBI's first objective is to safeguard the interest of investors and their investment in securities market. It is to ensure that the investors receive accurate and timely information about financial securities that they invested in.

2. **To regulate and promote the development of the securities market;**

SEBI have the responsibility to regulate and develop the securities market, via formulating regulations and guidelines that governs the intermediaries and various investors.

3. **Prevention of insider trading**

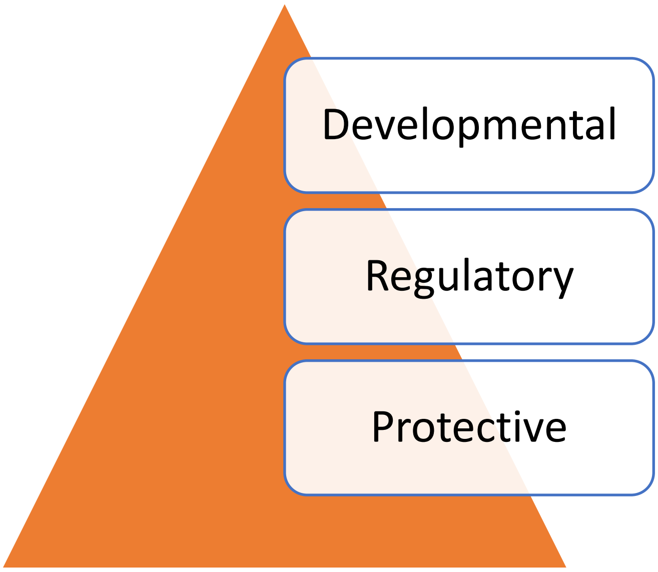
SEBI works towards preventing insider trading, a practice where individuals with access to non-public information, use it to gain an unfair advantage in trading. SEBI's regulations on insider trading aim to maintain a level of playing field for all market participants.[14]

4. **Prohibition of fraudulent and unfair trade practices,** which are related to trading like price rigging etc. SEBI investigate and take corrective measures to maintain market transparency and protect the investors from fraud practices.
5. **Promotion of fair practices and code of conduct.**

SEBI enforces a code of conduct for all market participants, to ensure that the market activities are

[11] https://www.criminallawjournal.org/article/66/4-1-9-741.pdf
[12] https://www.shiksha.com/online-courses/articles/objectives-of-sebi/
[13] https://www.sebi.gov.in/about-sebi.html
[14] https://www.bajajfinserv.in/what-is-sebi

conducted ethically and transparently.
To attain these overarching objectives of investor protection and development of securities market SEBI has to perform key functions: SEBI has primarily **3 functions**, including:



Developmental Function:
This function is performed by SEBI in order to ensure healthy and orderly development of securities market and their intermediaries. Under this SEBI provides sufficient knowledge and training to investor, and its intermediaries of trading and market function. The following activities are done by SEBI as part of its developmental function:
1. Providing training programs to intermediaries like merchant banker, brokers and market participants of securities market.
2. Reducing the cost of issue by making underwriting optional.
3. Promotion of stock exchange activities by permitting internet trading through registered stock brokers. [15]
4. Also, by permitting initial public offering of primary market through stock exchange.

Regulatory Function:
The major function of SEBI is to regulate and govern stock exchange by drafting rules, regulations and code of conduct. The following functions are performed by SEBI to regulate the activities and functions of its intermediaries under stock exchange.
1. SEBI regulate its intermediaries such as brokers, merchant banker, underwriters through the rules, regulation and guidelines set by SEBI.
2. SEBI also conduct investigation, inquires and auditing of stock exchange.
3. It registers and regulates the activities of stock brokers, sharing merchant, trustees, and its intermediaries making private placement more restrictive.
4. Mutual funds are also registered and regulated under SEBI purview.
5. It also regulates the process of takeover of a company.[16]

[15] ibid 10
[16] https://byjus.com/commerce/sebi-objectives-and-functions/

Protective Function:
This function is the main objective of SEBI i.e. protection of investors and their investments. Protective function of SEBI includes following:
1. SEBI protects the interest of investor by prohibiting insider trading; It is the act of purchasing and selling of their own shares of the company by the insiders of a company from secondary market, That's why SEBI has barred the companies to buy or sell their own securities.
2. It also prohibits Price rigging; it is the act of manipulating the prices of securities by either inflating or deflating the market price of the stocks which leads to financial loss for the investors.
3. Provides education and awareness to investors so that they can evaluate securities of different companies in order to maximize their profit by choosing the most profitable securities.[17]
4. Promotes fair practices and work towards prohibiting fraudulent activities related to securities market.[18]

Powers and Duties of SEBI
The Securities and Exchange Board of India (SEBI) was incorporated with a distinct mandate to make sure that capital markets develop and are regulated in an orderly manner, and the interest of investors is safeguarded. Promoting and regulating the growth of capital markets is one of its key activities under the SEBI Act. SEBI plays a crucial role in making sure that securities markets function in a fair, efficient, and transparent manner. By establishing a strong regulatory structure, SEBI generates investor confidence and promotes increased participation in the financial markets, crucial for economic growth.
Another important role is to guarantee fair dealing in securities and discourage malpractices, such as insider trading. SEBI puts strong disclosure regulations into practice and regulates trading to observe malpractices. It is empowered to scrutinize suspected misbehavior and penalize accordingly, thereby keeping the market in line and safeguarding investors from unethical practices.
SEBI is also tasked with developing an efficient and reliable system for the clearance and settlement of securities transactions. It oversees stock exchanges and clearing corporations to ensure timely and risk-free settlement processes. The move towards faster settlement cycles (like T+1 and pilot programs for T+0 settlements) reflects SEBI's commitment to enhancing operational efficiency and reducing systemic risk.[19]
Also, SEBI regulates and promotes the derivatives market, including futures, options, and swaps, and governs collective investment schemes like mutual funds and depositories. Through standard-setting and making products transparent, SEBI facilitates risk diversification and exposure to new investment opportunities for the investor.
SEBI promotes the formation of self-regulatory organizations (SROs) in the securities market. The organizations exist under the supervision of SEBI and assist in keeping the market participants disciplined. Through SROs, SEBI promotes the maintenance of ethical standards in the market and avoids imposing excessive regulatory burden at the expense of investor protection.
The Securities and Exchange Board of India (SEBI) has wide-ranging powers and functions to regulate the securities market and maintain its orderly functioning. One of its most important powers is enforcement. SEBI can enforce not just the provisions of the SEBI Act, but also connected legislations

[17] Ibid 11
[18] Ibid 15
[19] https://pwonlyias.com/mains-answer-writing/analyze-the-historical-evolution-of-the-securities-and-exchange-board-of-india-sebi-since-its-inception-what-role-has-sebi-played-in-ensuring-the-integrity-of-indias-financial-markets-15-mark/

like the Securities Contracts (Regulation) Act, 1956, the Depositories Act, 1996, and certain provisions of bankruptcy legislations under the Board for Industrial and Financial Reconstruction (BIFR). SEBI also enforces several directions of the central government to ensure market integrity and the safeguarding of investors.

Organizational autonomy is also bestowed upon SEBI in that it has the authority to appoint its employees and officers to effectively administer its affairs. It can co-opt officers from the state or central governments as well, enabling it to use external expertise whenever required for special investigations or policy-making.

Investigation is yet another important task that has been assigned to SEBI. The Board is empowered by the SEBI Act to carry out independent investigations to reveal fraudulent transactions, insider trading, or other abuses. SEBI can also initiate investigations on its initiative if any event or market irregularity calls for further investigation.

An interesting aspect of SEBI's structure is that other authorities or organizations dealing with securities markets can voluntarily place themselves under SEBI's supervision. This ensures centralized and uniform regulation across different segments of the market, strengthening SEBI's ability to maintain a transparent and fair-trading environment.

SEBI has the power to offer financial assistance. It can provide funds to its committees or sub-committees, especially those tasked with carrying out investigations, conducting research, or managing enforcement activities. This financial autonomy allows SEBI to act swiftly and independently without waiting for external budgetary approvals.

The Securities and Exchange Board of India (SEBI), established under the SEBI Act of 1992, possesses a broad range of regulatory, investigative, and enforcement powers to ensure transparency, accountability, and investor protection in the Indian securities market. These powers are essential in enabling SEBI to fulfill its mandate and decisively address market malpractices.

- **Power of Search and Seizure:**

Under **Section 10** of the SEBI Act[20], SEBI is empowered to search any place or premises where it reasonably believes that documents, books of accounts, or electronic records related to securities transactions are stored. If necessary, SEBI can seize such materials for investigation. Section 11 further strengthens this authority by empowering SEBI to issue search warrants for locations associated with suspected violations of securities laws. This enables SEBI to effectively gather evidence in cases involving insider trading, fraud, or market manipulation.[21]

- **Power of Arrest:**

As per **Section 12**, SEBI officers or police officers not below the rank of Assistant Superintendent of Police have the authority to arrest without a warrant any individual suspected of committing an offence under the Act. This empowers SEBI to act swiftly in cases of serious violations, ensuring that offenders cannot escape legal action by exploiting procedural delays.[22]

- **Power of Attachment and Service of Orders:**

According to **Section 14**, SEBI can serve its orders to any person involved in proceedings and has the authority to attach their property pending the outcome of such proceedings. This ensures that assets are not transferred or disposed of while a case is under investigation or adjudication, thereby safeguarding

[20] SEBI Act, 1992, indiacode.nic.in
[21] https://www.legalraasta.com/blog/sebi-powers-responsibilities/
[22] Ibid 19

investors' interests.

- **Appointment of Officials and Officers:**

Under **Section 19**, SEBI is granted autonomy to appoint officers, employees, and experts necessary for discharging its functions. Additionally, it can co-opt officers from other government departments or law enforcement agencies to assist in specific cases or investigations.

- **Power to Make Regulations:**

SEBI has quasi-legislative powers under which it can frame rules and regulations with the prior approval of the Central Government. These rules, such as the **Securities and Exchange Board of India (Futures Trading) Regulations, 2004**, help in regulating emerging areas like derivatives, futures, and other market instruments. These regulations carry legal force and are essential for adapting to the dynamic financial environment.

- **Power to Grant Sanctions for Prosecution:**

According to **Section 21**, SEBI has the authority to grant or initiate sanctions for prosecution before the Securities Appellate Tribunal (SAT) or other judicial bodies. This allows SEBI to take independent legal action against defaulters and maintain a comprehensive record of proceedings.

- **Recovery of Dues:**

Under **Section 28**, SEBI can recover any sums owed to it by any person under the Act. It can initiate civil recovery proceedings, and no civil court can entertain such a recovery suit unless SEBI grants prior sanction. This power ensures the financial accountability of intermediaries and market participants.

- **Powers Equivalent to a Civil Court:**

According to **Section 30**, SEBI possesses powers similar to those of a civil court under the **Code of Civil Procedure, 1908**, including summoning individuals, enforcing attendance, demanding document production, and receiving affidavits. Subsections (2-A) and (3) further empower SEBI to initiate attachment proceedings and issue search warrants to compel attendance when necessary.[23]

The extensive powers position SEBI not just as a regulatory authority but as a quasi-judicial body capable of investigation, enforcement, and prosecution. Such authority ensures the robust functioning of India's capital markets and protection of investors against malpractices.

Role and Responsibility of SEBI

The Securities and Exchange Board of India (SEBI) was set up in 1988 and bestowed with statutory powers under the SEBI Act, 1992. The objective of SEBI is to protect investors' rights, regulate India's securities market, and boost the growth of the capital markets[24]. SEBI has grown in time to be a strong regulatory body safeguarding transparency, fairness, and efficiency in India's securities market. Its broad gamut of duties ensures the integrity and sound growth of the financial system.[25]

Regulation of the securities market is one of the central duties of SEBI. SEBI designs regulations and guidelines to govern and oversee the functioning of intermediaries such as stock exchanges, brokers, sub-brokers, merchant bankers, portfolio managers, and investment advisers[26]. SEBI ensures that these units work honestly and transparently, protecting investors' interests. Monitoring and inspecting stock exchanges and intermediaries, prohibiting unfair trade practices such as insider trading, and enforcing

[23] https://www.samco.in/knowledge-center/articles/what-is-sebi/
[24] https://vajiramandravi.com/upsc-exam/securities-and-exchange-board-of-india-sebi/
[25] https://byjus.com/commerce/sebi-objectives-and-functions/
[26] https://www.legalraasta.com/blog/sebi-powers-responsibilities/

compliance with disclosure norms are crucial parts of SEBI's regulatory framework. Section 11 of the SEBI Act, 1992, empowers SEBI to take necessary measures to regulate the securities market (SEBI Act, 1992).[27]

In addition to its regulatory functions, SEBI also performs important developmental roles. It is concerned with the development and modernization of the securities markets through encouraging investor education, training market intermediaries, and fostering fair practices.[28] SEBI played a key role in introducing new financial products like derivatives, mutual funds, and ETFs, and enhancing technological infrastructure, such as the shift to online trading platforms and decreasing settlement cycles. These efforts have improved the efficiency, accessibility, and international integration of Indian capital markets (SEBI Annual Reports).[29]

It is in the very mandate of SEBI to protect investors. By conducting numerous protective measures, SEBI seeks to provide investors with a fair and secure trading environment. SEBI prevents insider trading by establishing stringent regulations against trading on unpublished price-sensitive information. SEBI also brings about transparency in takeover operations with rules on significant acquisition of shares. The companies must provide investors with correct and timely information. Moreover, SEBI has formulated the SCORES platform, a web-based grievance redressal portal for investors, to ensure that the grievances are properly and promptly handled (SEBI Regulations).

The power structure of SEBI is unique in that it exercises quasi-legislative, quasi-judicial, and quasi-executive powers. As a quasi-legislative authority, SEBI prepares rules and regulations that must be followed by market participants. As a quasi-judicial body, SEBI conducts hearings and issues orders against violators of securities law. As a quasi-executive institution, SEBI implements its regulations by investigating cases, imposing fines, and ordering administrative actions. This three-pronged role enables SEBI to function efficiently and effectively, providing faster resolution of disputes and regulatory compliance (Bharati V. Pathak, Indian Financial System).

The key duty of SEBI is to regulate and oversee mutual funds and collective investment schemes. SEBI ensures fund managers stick to the guidelines of investment and deal in complete transparency. It requires precise disclosures regarding the risks of investments, charges, and holdings in the portfolio so that investors are safeguarded from spurious or mismanaged schemes. The SEBI (Mutual Funds) Regulations, 1996, outline a comprehensive regime for the working of mutual fund schemes in India, instilling investor confidence and participation in these schemes (SEBI - Mutual Fund Regulations).

SEBI performs a vital function of discouraging unfair trade practices in the securities market. It closely monitors against market manipulations like insider trading, front running, and price rigging. SEBI enforces monitoring mechanisms in stock exchanges and investigates suspicious behavior. If there is any misconduct, SEBI can levy penalties, suspend operations, and even file criminal charges. For this purpose, SEBI has created a special Integrated Surveillance Department that provides real-time monitoring of market movements (SEBI Integrated Surveillance)

Corporate governance is another critical area where SEBI's influence is visible. SEBI enforces stringent corporate governance standards to promote transparency, accountability, and fairness among listed companies. Regulations mandate the inclusion of independent directors on company boards, disclosure of related-party transactions, and protections for minority shareholders. The SEBI (Listing Obligations and

[27] https://ijirl.com/wp-content/uploads/2024/02/SEBI-ON-INVESTOR-PROTECTION.pdf
[28] Ibid 24
[29] Ibid 23

Disclosure Requirements) Regulations, 2015 (LODR Regulations) are comprehensive guidelines aimed at improving the governance practices of Indian companies and restoring investor confidence (SEBI LODR Regulations).

During the age of globalization, SEBI is also an active international player. It speaks for India in international forums like the International Organization of Securities Commissions (IOSCO). With bilateral and multilateral cooperation arrangements, SEBI works with international regulatory authorities to harmonize Indian securities regulation with international best practices. This not only increases the Indian capital market's credibility but also makes domestic regulation keep pace with the changing world financial scenario (SEBI - International Cooperation).

Overall, SEBI’s role extends beyond traditional regulation to encompass promotion, development, enforcement, and protection within the financial markets. It has been instrumental in transforming India’s securities market into a modern, well-regulated, and dynamic marketplace. SEBI’s continuous efforts to improve transparency, efficiency, and investor protection have contributed significantly to India’s growing status as a major global investment destination.

SEBI's multi-faceted role, as simultaneously a watchdog, a regulator, an enforcer, a developer, and an educator, positions it as one of the country's most critical support structures for India's financial infrastructure. By remaining responsive to evolving challenges like technological disruption, cyber-attacks, and newer financial products such as crypto-assets, SEBI guarantees the competitiveness and resilience of the Indian financial architecture in the rapidly interconnected world.

Literature Review

The research conducted for this genre of trade and investment law for market manipulation and insider trading is done with consultation from a number of websites, research papers, legislations, surveys, as well as some regulations. It is done with the intend to deeply understand the role od SEBI in curbing these unlawful practices. Along with its goals, purpose of operations demonstrated by certain researchers. In addition to it, the evolutions of SEBI from various frauds have also been covered under this, with focus on the anomalies.

Certain Scholars have also discovered the hurdles that the stock market and other investors have duly faced due to the countless illicit activities that primarily include the insider trading and market manipulation techniques that disturb the proper flow of market. Notwithstanding to the enactment of various rules, regulations or guidelines, SEBI has also established a numerous number of specialized departments to monitor market activity.

Jain (1999) had studied on capital market restructuring where he had observed that the necessary requisite for a reform in capital market included significant developments in debt market, equity markets’ revival along with an improved and effective disclosure mechanism following the highest of corporate governance standards, reforms in insurance and pension funds to enable flow of funds to infrastructure and the emergence of financial derivatives and risk management products.

Neelamegam R. and Srinivasan R. (1996) investigated the suitability of various safeguards under the Securities and Exchange Board of India Act of 1992 and the Securities Contracts Act of 1956. They also looked at India's primary and secondary markets' trade activity. They discovered that even after SEBI was established, investors lost faith in the regulators despite the fact that they had implemented preventive measures through legal mechanisms.

Gupta and Biswas (2006) analyse the evolution and efficacy of the Indian capital market during the postliberalization era and conclude that the reform process has resulted in an unprecedented growth rate of the Indian stock market, unmatched in any nation's history. This market ironically endures the threat of over-speculation and pronounced price volatility, which are indeed more intense than those of many of its rivals. These vices are adequate to undermine the fundamental objective of financial liberalisation, wherein society effectively empowers financial systems to mobilise and allocate resources.

A summary of the Indian capital market and its structure is given by **Juhi Ahuja (2012)**. A paradigm shift in the Indian capital market has been noted during the past ten or so years. The Indian capital market is now similar to the global capital markets thanks to the implementation of numerous reforms and advances. The present global financial crisis, which started in the US sub-prime mortgage market and expanded to the rest of the world as a contagion, has, however, been the market's worst period. The performance of the Indian stock market was slow.

In their study "Investor protection measures by SEBI," **Dr. KVSN Jawahar Babu and S. Damodar Naidu (2012)** discovered that investor education initiatives run by SEBI had some success. However, much more work still has to be done. The top authority must act quickly to create and effectively execute measures to safeguard small investors' interests and rebuild their trust in the stock market, as Indian investors have been gradually leaving the market.

CASE STUDIES

Rakesh Agrawal vs Securities Exchange Board of India[30]

In 1996, Rakesh Agrawal, managing director of ABS Industries Ltd., signed a deal with Bayer AG, a German business, which agreed to purchase 51% of ABS Industries Ltd.'s shares. Following UPSI's announcement of the acquisition, the accused sold a significant portion of his ABS Industries ownership, which he owned through his brother-in-law, Mr. I. P. Kedia.Considering Mr. Kedia to be a well-connected individual, SEBI held that Mr. Rakesh Agrawal was guilty of insider trading and directed him to deposit Rs. 34 lakhs with Investor Protection Funds of Stock Exchange, Mumbai and NSE (in equal proportion i.e. Rs.17 lakhs in each exchange) to pay any investor who may make a claim afterwards.[31]

On appeal to the Securities Appellate Tribunal (SAT), it was concluded that even if Mr. Agrawal had traded securities while in possession of UPSI, he was not guilty of insider trading because his actions were in the best interests of the company (as Bayer AG was not willing to acquire the company unless it could obtain a minimum of 51% of the shares) and there was no intention to make a profit.

Further, SAT decided that in order to penalise an insider for violating the Regulations, it must be-proven that the insider benefited unfairly from the trade. The tribunal also rejected SEBI's argument that insider trading jurisprudence is founded on the concept of `disclose or abstain', and that an insider in possession of UPSI cannot trade in a company's stocks until he reveals the UPSI. After revisiting the entire jurisprudence of insider trading on requirement of Mens Rea under Indian legal system, the tribunal held that: "Taking into consideration the very objective of the SEBI Regulations prohibiting the insider trading, the intention/motive of the insider has to be taken cognizance of. It is true that the regulation does not specifically bring in mens rea as an ingredient of insider trading. But that does not mean that the motive need be ignored."[32]

[30] [2004]49SCL351(SAT)
[31] https://blog.ipleaders.in/five-landmark-cases-insider-trading/
[32] https://taxguru.in/sebi/analysis-insider-trading-case-laws.html

Hindustan Lever Limited v. SEBI[33]

In this case, two weeks prior to the merger of Hindustan Lever Ltd. (HLL) and Brooke Bond India Ltd. (BBIL), Hindustan Lever Ltd. (HLL) purchased 8 lakhs shares of Brooke Bond India Ltd. (BBIL) from the Unit Trust of India (UTI). SEBI undertook an investigation and alleged charges of insider trading against the executive directors and company secretary of Hindustan Lever Ltd. (HLL).

Arguments for HLL:

- HLL argued that to constitute information as UPSI, it should satisfy two conditions: firstly, the information should not be published, and secondly, it should be price-sensitive information.
- HLL further added that the information about the merger of two companies appeared to have been generally speculated and was probably already discounted by the market. Hence such information is not an UPSI.

The appellate authority, on the basis of the facts and the arguments submitted, decided that the information was not a UPSI because it was generally known and also did not materially affect the price of the securities of BBIL. Hence, there was no violation of insider trading.[34]

Outcome of this decision

This decision of the SAT led to an amendment in the definition of ""unpublished" under Section 2(k) which stated, "unpublished" means information which is not published by the company or its agents and is not specific in nature." Explanation - Speculative reports in print or electronic media shall not be considered as published information".[35]

By the same Amendment, SEBI also introduced a new provision, Section 2(ha) which defined "price sensitive information" to include any information relating to an amalgamation, merger or takeover as deemed price sensitive information, regardless of whether such information actually has any affect the price of the securities in the market However, the amendments did not definitively and expressly define "generally available information" and then 2015 regulations finally came out defining what constitutes UPSI by stating "generally available information" under Section 2(1)(e) which stated, "generally available information" means information that is accessible to the public on a non- discriminatory basis;"[36]

The Kishore biyani case[37]

Kishore Biyani is the Founder & CEO of Future Group, (brick-and-mortar retailers) and is also the founder of retail businesses such as Pantaloons Retail and Big Bazaar

SEBI initiated an investigation in the scrip of Future Retail Limited ("FRL") to ascertain whether certain persons/entities had traded in the scrips of FRL during the period March 10, 2017 to April 20, 2017 on the basis of UPSI, in contravention of the provisions of the SEBI Act, 1992 and SEBI PIT Regulations, 2015.

What was considered UPSI by SEB| in this case?

Composite Scheme of Arrangement between Future Retail Limited and Bluerock eservices Private Limited and Praxis Home Retail Private Limited and their shareholders in 2017 was the concerned UPSI in this matter. It resulted in the demerger of certain business from Future Retail ‘and was expected to have a positive impact on Future Retail's share price Future Corporate Resources and FCRL Employee Welfare Trust purchased FRL shares before the scheme of arrangement was publicly announced, and these trades

[33] (1998) 18 SCL 311 MOF
[34] Ibid 3
[35] https://corporate.cyrilamarchandblogs.com/2017/10/insider-trading-hindustan-lever-limited-v-sebi/
[36] https://blog.ipleaders.in/five-landmark-cases-insider-trading/
[37] (2024 AHC 43655)

were carried out by involved entities who were aware of the scheme and thus found to have traded while in possession of UPSI, according to SEBI. As per SEBI's order these trades were authorized by Kishore biyani and anil biyani.

SEBI barred the notices from accessing FRL stocks for 2 years and ordered Future Corporate Resources, Kishore Biyani, and Anil Biyani to jointly disgorge a sum of over Rs 17.78 crore, with interest at a rate of 12% per year from April 20, 2020 to the date of actual payment. However, the SAT has stayed the SEBI's order that had barred Future Group CEO Kishore Biyani from accessing the securities market and directed to deposit Rs 11 crore as an "interim measure". The case is pending before the SAT.

Infosys and insider trading[38]

During an investigation around July 2020 by SEBI, there were few entities (Capital One, Tesora Capital etc.) that were found to be involved in trading in the scrips of Infosys ("INFY"), while in the possession of the UPSI, prior to the public corporate announcement. The scrip was in the Future and Option segment ("F&O Segment) and is a part of SENSEX and NIFTY.

What was UPSI in this case?

INFY's audited financial statements for the quarter ended June 30, 2020 were released on July 15, 2020 to the BSE and NSE. Basic financial elements of the P&L and Balance Sheet ("BS"), as well as significant financial and operational factors that contributed to different aspects of the P&L and BS, were included in the results which altogether constituted UPSI.

The Partners of Capital One and Tesora Capital traded in the F8O segment of INFY scrips prior to the corporate announcement and soon after the announcement, squared off their positions such that net positions were zero and which allowed them to make an illegal gain of Rs 3,06 crores. Along with these entities, Senior Corporate Counsel and Senior Principal, Corporate Accounting Group of INFY were found to be involved in the said transaction. SEBI order stated that these two employees of INFY were in constant touch with each other during June 29, 2021 till July 15, 2021 which led to passing of UPSI with one another and later with the other partners of Capital One and Tesora Capital, implicated here.

SEBI in its order has impounded the illegal gains as mentioned above and further restricted the entities from accessing the securities market till further orders. The matter is pending before SEBI.

SEBI v. Reliance Industries (Market Manipulation)[39]

SEBI’s March 2017 order barred Reliance Industries and 12 related entities from the equity derivatives segment for one year and directed them to disgorge nearly ₹1,000 crores. The order cited repeated instances of market manipulation, emphasizing SEBI’s growing vigilance and capacity to detect and act against such activities. This case underscored the regulator’s commitment to market integrity and its willingness to take strong action against high-profile violators.

SEBI’s Response and Legal Actions

SEBI has responded to these and similar cases with a multi-pronged approach:

- **Strengthening Surveillance and Investigation:** SEBI has significantly increased its monitoring and investigative capabilities, with the number of probes into market manipulation and price rigging reaching record highs in recent years. For example, between April and December 2016, SEBI initiated investigations in 174 cases, the highest ever for a single fiscal period[40]

[38] Ibid 6
[39] https://regstreetlaw.com/news/manipulation-probes-by-sebi-hit-a-new-high/
[40] https://regstreetlaw.com/news/manipulation-probes-by-sebi-hit-a-new-high/

- **Regulatory Reforms:** Following the Harshad Mehta scam, SEBI was granted statutory powers and implemented major reforms, including the introduction of online trading, stricter rules for intermediaries, and enhanced corporate governance standards[41]
- **Clearer Definitions and Penalties:** SEBI has broadened the definition of "insiders" to include not just employees but also consultants and family members with access to confidential information. Penalties for insider trading have been increased, and companies are now required to maintain detailed records of insiders and monitor their trading activities closely[42]
- **Legal Actions:** SEBI has imposed monetary penalties, issued bans from market participation, and ordered disgorgement of unlawful gains in several high-profile cases, such as those involving Reliance Industries and individuals like Rakesh Agarwal[43]

"SEBI has come a long way in its surveillance systems and risk containment measures… Market integrity is of paramount importance and SEBI has started looking at more cases of market manipulation."[44]

Empirical analysis of specific regulatory roles of SEBI

A number of regulatory roles are performed by SEBI in terms of controlling the activities of security market. Inspection and surveillance activities are performed by the SEBI under regulatory roles in the stock market. In this paper an empirical analysis of SEBI regulatory activities is performed of last five financial years in order to overview the overall performance.

1. **Inspections:** SEBI conducted inspections of various Market Infrastructure Institutions during 2020-24, to have an oversight on the activities carried out by them. During 2020- 24, comprehensive inspections of NSE, BSE and MSEI were carried out by SEBI, while, on-site inspections of the surveillance functions.

Table 1: Inspections of Market Intermediaries (2020–2024)

Year	Stock Brokers	Depository Participants	Merchant Bankers	Credit Rating Agencies	Portfolio Managers
2020	92	58	11	6	7
2021	92	51	14	7	9
2022	104	67	22	9	18
2023	117	59	31	12	25
2024	129	62	34	14	29

Source: Annual Report SEBI, 2021-22 , 2022-2023 & 2023-2024

Table 1: shows the number of inspections carried out by SEBI each year across different types of market intermediaries, such as stock brokers, depository participants, merchant bankers, credit rating agencies, and portfolio managers. Inspections are a core regulatory tool used by SEBI to ensure compliance, assess

[41] https://www.slideshare.net/slideshow/1992-indian-stock-market-scam-harshad-mehta/275313001
[42] https://stackwealth.in/blog/news/is-insider-trading-legal-in-india
[43] https://taxguru.in/sebi/analysis-insider-trading-case-laws.html
[44] Ibid 10

risk, and detect irregularities among intermediaries who act as vital links between investors, issuers, and the market. The rising trend in inspections reflects SEBI's increasing vigilance and proactive supervision, especially as the market grows in complexity and scale.[45]

2. **Enforcement Action Taken by SEBI:** The details of adjudication proceedings, settlement orders, administrative warning and monetary penalties issued by SEBI.

Table 2: SEBI Enforcement Actions (2020–2024)

Year	Adjudication Proceedings	Settlement Orders	Administrative Warnings	Monetary Penalties (â,¹ Cr)
2020	1,210	198	184	98.4
2021	1,283	214	192	105.7
2022	1,407	238	157	127.6
2023	1,892	315	204	184.3
2024	2,045	334	219	211.5

Source: SEBI Enforcement Statistics, Annual Report SEBI, 2021-22, 2022-2023[46] & 2023-2024[47]

Table 2: presents the annual volume of enforcement actions taken by SEBI, including formal adjudication proceedings, settlement orders, administrative warnings, and the total monetary penalties imposed. These actions are taken when SEBI detects violations of securities laws, such as insider trading or market manipulation. The steady increase in proceedings and penalties demonstrates SEBI's commitment to deterrence and accountability, as well as its responsiveness to emerging risks and complaints[48]

Table 3: Insider Trading Enforcement (2020–2024)

Source: SEBI Prohibition of Insider Trading Reports[49]

Year	Cases Investigated	Prosecutions Completed	Disgorgement Orders (Cr)	Entities Barred
2020	68	21	32.5	18
2021	74	26	39.2	20
2022	89	34	58.7	21
2023	112	47	82.4	29
2024	129	53	97.1	34

Table 3: tracks SEBI's enforcement activity specifically targeting insider trading. It covers the number of cases investigated, prosecutions completed, total disgorgement (money recovered from violators), and the number of individuals or entities barred from the market. The upward trend highlights SEBI's enhanced

[45] https://economictimes.indiatimes.com/markets/stocks/news/sebi-issues-inspection-guidelines-for-brokers/articleshow/59427223.cms
[46] https://www.sebi.gov.in/reports-and-statistics/publications/aug-2023/annual-report-2022-23_74990.html
[47] https://www.lexsite.com/eDocs/Order-SV-RM-2024-25-30822.pdf

[48] https://ommcomnews.com/business-news/sebi-issues-warning-letter-to-iifl-capital-over-debt-securities-due-diligence/
[49] https://www.fortuneindia.com/investing/sebi-tightens-insider-trading-rules-for-mutual-funds-directs-res-to-end-ties-with-unregistered-advisors/118879

surveillance, faster action, and greater success in prosecuting insider trading, which is crucial for maintaining fair and transparent markets.
Table 4: Market Manipulation Surveillance (2020–2024)
Source: SEBI Surveillance Reports[50]

Table 4: captures SEBI's surveillance efforts against various forms of market manipulation. It includes the number of suspicious transactions flagged, alerts related to algorithmic trading, social media scam

Year	Suspicious Transactions Flagged	Algorithmic Trading Alerts	Social Media Scams Detected	Collective Investment Schemes Busted
2020	1,220	410	32	9
2021	1,346	497	41	12
2022	1,892	674	89	17
2023	2,415	921	134	24
2024	2,788	1,057	162	28

detections, and collective investment schemes busted. The data shows a rising trend in surveillance alerts and interventions, reflecting SEBI's adoption of advanced technology and data analytics to keep pace with evolving manipulation techniques and protect investors[51]

Analysis and Interpretation of Empirical Data
The empirical data presented above, when visualized through line graphs, reveals a consistent upward trajectory in both regulatory inspections and enforcement actions by SEBI over the past five years. This trend is evident in the steady increase in the number of inspections conducted across various market intermediaries, as well as the notable rise in adjudication proceedings and monetary penalties imposed by SEBI during this period (Securities and Exchange Board of India.[52]
Notably, the sharp increase in algorithmic trading alerts and social media scam detections in 2023 and 2024 coincides with SEBI's adoption of advanced surveillance technology and data analytics tools. These technological enhancements have enabled the regulator to flag more suspicious transactions and adapt to new forms of market abuse, such as manipulation via digital platforms and sophisticated algorithmic trading strategies.[53]
A comparative analysis with global peers, such as the US Securities and Exchange Commission (SEC), suggests that SEBI's enforcement intensity—measured by the number of enforcement actions and the magnitude of financial penalties—is now on par with leading international regulators. However, challenges remain, particularly in areas such as cross-border enforcement, where coordination with foreign regulators is required, and in the real-time detection of increasingly complex market manipulation

[50] https://www.sebi.gov.in/legal/regulations/sep-2023/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-regulations-2015-last-amended-on-september-20-2023-_77239.html
[51] https://www.lexsite.com/eDocs/Order-SV-VC-2023-24-29698.pdf
[52] Securities and Exchange Board of India (SEBI). (2024a). *SEBI Annual Report 2023-* https://www.sebi.gov.in/reports-and-statistics/annual-reports.html
[53] Securities and Exchange Board of India (SEBI). (2024b). *SEBI Surveillance Report 2023*-https://www.sebi.gov.in/reports-and-statistics/surveillance.html

schemes.[54]

High-profile cases, such as the Axis Mutual Fund insider trading probe in 2022, have served as important deterrents and have shaped subsequent policy reforms. In this landmark case, SEBI investigated allegations that several fund managers and dealers at Axis Mutual Fund engaged in front-running—using confidential information about upcoming trades to benefit personally or through associates. SEBI's swift action led to the suspension of key employees, imposition of penalties, and a broader review of compliance mechanisms within the mutual fund industry. The case highlighted the regulator's increasing willingness to pursue complex investigations and impose significant sanctions, which in turn has influenced market behavior and compliance standards.[55]

Despite these advances, stakeholder surveys and independent analyses indicate that market participants still seek greater transparency in SEBI's processes and faster resolution of enforcement cases. Delays in adjudication and the lack of detailed reasoning in some penalty orders have been noted as areas for improvement (National Stock Exchange [NSE], 2023).[56]

Overall, the data underscores SEBI's evolving and increasingly robust approach to safeguarding market integrity. The regulator's expanded enforcement toolkit, enhanced surveillance capabilities, and willingness to address emerging risks position it as a key player in maintaining fair and transparent securities markets in India.

Insider Trading – Need for Prohibition

The term insider itself has not been defined anywhere except in the PIT regulations, 2015 for reference as to any person who is – a connected person or one who is in possession or has access to any of the unpublished price sensitive information[57]. The older definition just had the part of an officer or employee, limiting its reach as per Section 2(13) of the Companies act, 2013.[58] The 2015 regulations widened the ambit of it beyond just official relationships and included the contractual and fiduciary relationships.

The phrase "insider trading" highlights a bad feature. However, there are other circumstances in which it is lawful, and breaking those rules will make insider trading unlawful. A wide range of definitions and connotations, including both legal and illegal activities, are applied to the mechanism of insider trading. When an insider purchases and sells business stock using information that is generally accessible to the public and discloses the transactions to prevent the misuse of any price-sensitive, non-public information, insider trading is permitted. 4. Corporate insiders are permitted to trade in the stocks of their company in India; to do otherwise would be an excessive infringement on their rights.

The Securities and Exchange Board of India has long opposed insider trading in an effort to promote fair trade practices and, in turn, increase investor confidence in the market. Illegal insider trading occurs when insiders, such as important employees or other connected individuals, possess confidential price-sensitive information or strategic information about the company's future plans and use it to trade in the company's

[54] World Bank. (2023). *Global Financial Development Report 2023: Financial Regulation for a Sustainable Economy*. https://www.worldbank.org/en/publication/gfdr

[55] Securities and Exchange Board of India (SEBI). (2022). *Order in the matter of Axis Mutual Fund*. https://www.sebi.gov.in/enforcement/orders/aug-2022/order-in-the-matter-of-axis-mutual-fund_61658.html; The Economic Times. (2022, May 7). *SEBI cracks down on Axis MF front-running case*. https://economictimes.indiatimes.com/markets/stocks/news/sebi-cracks-down-on-axis-mf-front-running-case/articleshow/91404985.cms

[56] National Stock Exchange (NSE). (2023). *NSE Investor Survey 2023*. https://www.nseindia.com/resources/research

[57] Section 2(1)(g), SEBI PIT Regulations, 2015.

[58] Section 2(c), Securities and Exchange Board Of India (1 [Prohibition Of] Insider Trading) Regulations, 1992.

stocks or securities in order to profit. Insider trading is prohibited and subject to legal penalties since it places one stockholder at a significant disadvantage compared to those who possess such inside knowledge.
The rationale behind the adoption was made from a high-level committee headed by Justice N. K. Sodhi[59] in the year 2013. It was made as the older regulations needed a newer approach to deal with the latest problems and address the shortcomings. Though the 2002 amendment was aimed at making the substantive law more robust, it still could not address certain pertinent issues prevalent in trade behaviours with respect to insider trading. Additionally, later revisions failed to adequately regulate insider trading practices. The case of Hindustan Lever Ltd. v. SEBI[60] is a classic illustration of how many prosecutions initiated by SEBI ultimately resulted in being overruled or dropped.
The procedural aspects of the 1992 regulations and their subsequent amendments, such as the lack of adequate evidence and a higher standard on the part of the regulator to prove a violation, were more important in the redesign of the 1992 regulations into the new 2015 regulations than their substantive ambiguities and leeway.[61]
The judicial position of the person 'insider' was also taken into consideration while making the amendments included in the new regulations and the Sodhi Committee's suggestion. In the case of KLG Capital Services Ltd.[62], three businesses that were part of Awaita's group firm SKIL traded shares in KLG Capital after Awaita Properties Pvt. Ltd. declared an open bid to purchase a 20% stake in KLG Capital. According to PIT regulations, 1992, SEBI additionally designated ED, ED's family members, the Deputy Chairman, and the Deputy Chairman's wife as insiders while coming to the conclusion that the president of SKIL was a "connected person" since he served as a temporary official or in a commercial partnership. The 2015 laws acknowledge both personal and fiduciary links, which broadens the definition of insiders and connected individuals. If all things are to be considered, it may be claimed that the emphasis is on "effect based" regulations rather than the matter of their genesis.

Effects and Regulations – Prohibition of Insider Trading (PIT) Regulations

The key essential provisions of PIT Regulations, 2015 are as follows
'Unpublished price-sensitive information' (henceforth referred to as UPSI) is defined in Regulation 2(n)[63]. It refers to any information about a business or its shares that is not commonly known but that, when made public, is anticipated to have a significant impact on the stocks' price. It covers things like financial performance, dividends, capital structure adjustments, big business deals, and changes to important executive personnel. According to the definitions given above, an insider is a connected individual who possesses price-sensitive information that the general public does not, and who utilises that information to obtain disproportionate profits that are harmful to the company's interests.
Under Regulation 3[64], When an insider has access to unpublished price-sensitive information, SEBI forbids them from dealing in the securities of a corporation listed on a stock exchange, either on their own behalf or on behalf of another individual. Companies that possess unpublished price-sensitive information

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[59] Retired Chief Justice of the Karnataka High Court and former Presiding Officer of the Securities Appellate Tribunal (SAT).
[60] (1998) 18 SCL 311
[61] Majumdar, Mohan. 2015. 'SEBI (Prohibition Of Insider Trading) Regulations 2015'. Ashlar Law. https://ashlarlaw.wordpress.com/2015/02/23/sebi-prohibition-of-insider-trading-regulations-2015/#_edn2.
[62] WTM/PS/24/ISD/JULY/2014.
[63] Section 2(n), SEBI PIT Regulations, 2015.
[64] K. Shekhar, *Guide to SEBI capital Issues, Debentures & Listing,* (3rd Edition, 2003)

are similarly prohibited from dealing in the securities of another firm or an associate of that company under Regulation 3A.

Though the transaction was entered by an officer on the business's behalf, Regulation 3B stipulates that the officer must have been unaware of any such information if the firm can demonstrate this. In this scenario, the business won't be charged with insider trading. Additionally, it lists a few more defences that a business may use in the event that it is accused of violating Regulation 3A. Section 24[65] of the SEBI Act, 1992, states that breaking this clause constitutes insider trading and carries a penalty equal to three times the gains gained from insider trading, up to a minimum of Rs. 25 crores (Rs. 250 million).

According to Regulation 13[66], any individual who owns more than 5% of the shares or voting rights in a listed company must notify the company of the number of shares or voting rights he holds within four days of his appointment. The company must then notify all stock exchanges where the company is listed of the information it has received. All listed firms are required by Regulation 12[67] to establish an internal procedure code.[68]

Additionally, the rule offers a sample code that the internal method must adhere to. According to the model code, a listed firm must designate a compliance officer who will establish policies and processes, oversee compliance with the guidelines for protecting price-sensitive data, and establish specific trading limitations.

In order to guarantee adherence to insider trading laws, SEBI's enforcement apparatus is essential. SEBI has the authority to look into possible cases of insider trading, carry out investigations, and punish offenders.[69] To successfully identify and discourage insider trading, the regulatory body uses a variety of surveillance techniques, such as market monitoring, information collection, and whistleblower methods. The Securities Appellate Tribunal (SAT), in addition to SEBI, is an appellate body that decides cases involving SEBI's enforcement operations. In order to ensure a fair and open adjudicatory process in insider trading matters, SAT offers a venue for parties who feel wronged to contest SEBI's orders or decisions.[70]

All things considered, India's insider trading laws are distinguished by a strong regulatory system meant to protect investor confidence and market integrity. India's insider trading rules aim to promote a just, effective, and transparent securities market ecosystem through strict regulations, vigorous enforcement, and an open adjudicatory procedure. The effectiveness of India's insider trading regulations is still crucial for maintaining market integrity and promoting long-term economic growth as the country develops into a major global financial centre. The

SEBI (Prohibition of Insider Trading) Regulations, 2015, include the main legal requirements pertaining to insider trading. These rules specify what constitutes insider trading, what constitutes an insider trading offence, and what market participants must do to reduce the danger of insider trading. The rules protect the integrity of the market and guarantee fairness for all investors by forbidding insiders from trading in securities using unreported price-sensitive knowledge. The duties of different market players, such as insiders, designated people, and market intermediaries, in avoiding insider trading are outlined in the SEBI laws. Directors are among the insiders. To prohibit the exploitation of unpublished price-sensitive

[65] Section 24, SEBI Act, 1992
[66] Regulation 13, SEBI PIT Regulations, 2015
[67] Regulation 12, SEBI PIT Regulations, 2015
[68] *SERI on Insider Trading,* available at http://www.legalserviceindia.com,
[69] (2011). Insider trading: indian perspective on prosecution of insiders. journal of financial crime, 18(2), 162-168.
[70] Bhattacharya, U. and Daouk, H. (2000). The world price of insider trading. SSRN Electronic Journal. https://doi.org/10.2139/ssrn.2009146 (2011). Insider trading: indian perspective

information, officials and staff of listed businesses must abide by stringent disclosure standards and trading limitations. Strict disclosure requirements and trading limits also apply to designated individuals who, due to their position or profession, have access to information.

If we now come to the disclosures part, Mandatory initial and continual disclosures also have been subject to change. As opposed to the 1992 regulations which prompted disclosure from people having qualified a quantitative bar in terms of percentage of share in the company or value of securities traded[71], the new regulations impose a liability of disclosure on every employee and even connected person, thus, having a very large ambit of people under the liability to disclose information as the ambit of connected persons as per the statute itself is very wide.[72]

Such a measure, then, firstly, enlarges the scope of disclosure requirements, and secondly, would encourage every listed company to educate their employees of the disclosure requirements, to seek correct and accurate information from their trades in the securities of the company along with the information pertaining to the trades of their immediate relatives, audit and track the transactions undertaken by the employee and their immediate relatives to see if the threshold is exceeded."[73] For this reason, the new regulations entail an enabling provision to the companies to obtain information from any other connected person as to its shareholding at its own discretion and frequency.[74]

Eliminating the various disclosures between the takeover code and the insider trading code has also been a positive step. In the past, it was common practice to make similar disclosures under several legislation, which led to investors having to make multiple disclosures and incurring needless compliance burdens, ultimately providing little net benefit to investors.[75]

The new regulations have revoked the court stance that supported this multiple disclosure. In the recent cases of Ashlesh Gunvantbhai Shah v. SEBI [76]and Gurmeet Singh Dhingra v. SEB[77]I, the Supreme Court ruled that disclosures must be made in the prescribed formats separately under Regulations 13(3) and 13(4) 1992 Regulations.[78] This meant that making a disclosure under one regulation would not release the individual from making a disclosure under the other regulation, or disclosing information to stock. Exchange will not force an individual or business to disclose information in accordance with applicable laws. This legal position resulted from the variety of the disclosures required by the rules, rather than just interpreting them. This adjustment was therefore intended to simplify process and was introduced by new regulations.

The securities market is concerned with how capital is distributed within an economy. Investors perceive insider trading as biassed since insiders have access to more price-sensitive knowledge before they do, which they can utilise to their advantage, while investors lose money or fail to realise their rightful profits when information is received later. A market may flourish healthily if it is integrated and devoid of illicit

[71] Section 13(1) reads: "Any person who holds more than 5% shares or voting rights in any listed company shall disclose to the company [in Form A]..." Section 13 (3) reads: "Any person who holds more than 5% shares for voting rights in any listed company shall disclose to the company [in Form C]..

[72] Section 7(1)(a) reads: "Every promoter, key managerial personnel and director of every company..."

[73] Subramanian, Introduction Of Insider T-ading Regulations 2015: Will The Paper Tiger Really Bite This Time,

[74] Section 7(3) Any company whose securities are listed on a stock exchange may, at its discretion require any other connected person or class of connected persons to make disclosures of holdings and trading in securities of the company in such form and at such frequency as may be determined by the company in order to monitor compliance with this regulation.

[75] Parekh, Sandeep. 2014. 'Initial Private Opinion: Insider Trading Law's New Avatar'. Spparekh.Blogspot.In. http://spparekh.blogspot.in/2014/11/insider-trading-laws-new-avatar.html.

[76] 2014 SCC OnLine SAT 162.

[77] 2014 SCC OnLine SAT 184.

[78] Subramanian, Introduction Of Insider T-ading Regulations 2015: Will The Paper Tiger Really Bite This Time.

activity, and investors may become more confident in such marketplaces. Insider trading causes investors to lose faith in the market because a firm's information belongs to it and only the corporation may profit from it.[79] The regulations prohibit insiders from trading in securities based on unpublished price-sensitive information, thereby safeguarding the integrity of the market and ensuring a level playing field for all investors. The SEBI regulations outline the obligations of various market participants, including insiders, designated persons, and market intermediaries, preventing insider trading.

The application of the law has always been a daunting undertaking in India, where lawbreakers are far more intelligent than legislators and breaking the law is a common occurrence. According to several analysts and former regulators, India requires more investigation capabilities and resources to fight insider trading. In order to better combat insider trading, the Securities and Exchange Board of India has been requesting further authority. As a result, SEBI introduced new insider trading laws in 2015. In order to guarantee adherence to insider trading laws, SEBI's enforcement apparatus is essential. SEBI has the authority to look into possible cases of insider trading, carry out investigations, and punish offenders.[80] To successfully identify and discourage insider trading, the regulatory body uses a variety of surveillance techniques, such as market monitoring, information collection, and whistleblower methods. The Securities Appellate Tribunal (SAT), in addition to SEBI, is an appellate body that decides cases involving SEBI's enforcement operations. In order to ensure a fair and open adjudicatory process in insider trading matters, SAT offers a venue for parties who feel wronged to contest SEBI's orders or decisions.[81]

Market Manipulation – Effects and Need for Regulation

Market manipulation is when someone artificially affects the supply or demand of a security such as causing stock prices to dramatically rise or fall.[82] In market manipulation, there is an artificial influencing of the price of an asset so that it may differ from the actual price that is known to the public. The manipulators, instead of discovering the existing opportunities, try to deceive other market participants and create a presumption of mispricing of the assets so that the manipulators can make profit from it. Market manipulation may or may not involve making and publishing factually false statements as well, but it always involves acting to influence prices in order to create false impressions among other market participants.[83]

The main root cause and a path to market manipulation is the insider trading. It spurs out and gives rise to this very effect of market manipulation. It wouldn't be incorrect to claim that unlawful insider trading is the cause of market manipulation. When someone with knowledge of the company's material facts purposefully disseminates misleading information or withholds information that they are required to reveal, they are engaging in market manipulation and manipulating pricing. Those who have been actively involved in the management of the company, or so-called stock-market "gurus," are the ones who are responsible for raising the price of the stocks they have bought, frequently by pointing to inflated numbers. Throughout the history of the markets, there has always been the booms and busts, manias and panics, and unfortunately, there has always been an ingredient of market manipulation involved. According to

[79] *Insider trading, available at http://economictimes.indiatimes.com,*
[80] Bhattacharya, U. and Daouk, H. (2000). The world price of insider trading. SSRN Electronic Journal. https://doi.org/10.2139/ssrn.200914
[81] 2011). Insider trading: indian perspective on prosecution of insiders. journal of financial crime, 18(2), 162-168.
[82] Anil Kr. Manchikatla, Rajesh H. Acharya, Insider Trading in India, 24 Journal of Finance Crime, 49 (2017)
[83] https://rajdhanicollege.ac.in/admin/ckeditor/ckfinder/userfiles/files/Concept%20of%20Insider%20Trading.pdf (accessed on 1 7 th February, 2022)

Cambridge dictionary, 'manipulation' refers to controlling someone or something to one's own advantage and often unfairly and dishonestly. From this definition of manipulation one can easily contend that market manipulation means the unethical controlling
of market to one's own advantage through unfair means. The most common of these financial crimes is "insider trading," which is strongly linked to India's economy, which is one of the fastest expanding in the world. Therefore, to ensure equal and fair play, an efficient check on this was necessary area, and in 1992, the Government established the Securities and Exchange Board of India by notification following the reports of several committees. Protecting investors' interests and boosting their confidence in the stock market so they can't be duped by market "gurus" was the fundamental goal of this board. [84]

Comparative Analysis

Financial market regulation is crucial in safeguarding investor interests and ensuring economic stability. India’s Securities and Exchange Board of India (SEBI), the United States Securities and Exchange Commission (SEC), and the United Kingdom's Financial Conduct Authority (FCA) are primary examples of such institutions. Despite operating in different jurisdictions, they aim to enhance market integrity and protect investors. However, differences in their structures, mandates, and enforcement capacities highlight varying approaches to achieving these objectives.

Insider trading and market manipulation pose significant threats to the fairness and integrity of financial markets. Global regulatory frameworks have evolved to address these issues, with the Securities and Exchange Commission (SEC) in the United States, the Financial Conduct Authority (FCA) in the United Kingdom, and the Securities and Exchange Board of India (SEBI) in India playing crucial roles. While each regulatory body shares a common goal of maintaining transparent and fair markets, their approaches to preventing, investigating, and punishing these practices differ in significant ways.

Legal Frameworks and Core Objectives:

The SEC derives its authority primarily from the Securities Exchange Act of 1934, which lays out comprehensive provisions for dealing with fraudulent and manipulative practices. Section 10(b) and Rule 10b-5 have become cornerstones for insider trading enforcement, while Section 9 addresses market manipulation directly[1]. The SEC is known for its principle-based approach, which allows it to adapt to evolving market practices[85].

The FCA’s jurisdiction comes from the Financial Services and Markets Act 2000 (FSMA) and the Market Abuse Regulation (MAR)[86]. MAR, in particular, aims to ensure the same high standard of market integrity across the EU (which the UK largely retained post-Brexit). Insider dealing and market manipulation are explicitly prohibited under MAR, which also requires firms to maintain robust systems and controls to prevent abuses[87].

SEBI, on the other hand, functions under the SEBI Act of 1992 and two critical sets of regulations: the SEBI (Prohibition of Insider Trading) Regulations, 2015, and the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 2003. These regulations are more detailed and codified compared to the U.S. and U.K. frameworks[88].

Insider Trading: Definitions and Jurisprudence

[84] Insider Trading and Market Manipulation: A Menace or a Strategy, 4 Indian J.L. & Legal Rsch 1 (2022)
[85] U.S. Securities and Exchange Commission. (n.d.). What We Do. Retrieved from https://www.sec.gov/about/what-we-do
[86] https://www.fca.org.uk/markets/market-abuse/regulation
[87] Financial Conduct Authority. (n.d.). About the FCA. Retrieved from https://www.fca.org.uk/about
[88] https://www.sebi.gov.in/about-sebi.html

Under SEC rules, insider trading involves trading securities based on material nonpublic information, breaching a duty of trust. U.S. courts have elaborated on this in landmark cases like Chiarella v. United States (1980)[89], which confirmed that a breach of fiduciary duty is a prerequisite. United States v. O'Hagan (1997)[90] expanded the scope through the misappropriation theory, holding that misusing confidential information to trade also constitutes fraud.

The FCA similarly defines insider dealing as trading based on information not yet public that could significantly impact a security's price. However, the FCA's approach is slightly more prescriptive: it focuses on direct evidence of misuse of confidential information and enforces strict obligations on market participants to prevent breaches. Financial Conduct Authority v. Hannam (2014)[91] was a notable case where the FCA sanctioned an individual for disclosing inside information improperly.

SEBI's regulations echo this broad approach but are more explicit in spelling out what constitutes unpublished price-sensitive information (UPSI)[92]. In Balram Garg v. SEBI, the Supreme Court of India required SEBI to show strong evidence that an insider had access to UPSI and used it to trade. Indian jurisprudence places significant emphasis on the intention behind trades, as seen in Rakesh Agrawal v. SEBI[93], which underscored the need to prove deliberate advantage-seeking behavior[94].

Market Manipulation: Broadening the Regulatory Lens

In the U.S., market manipulation involves conduct that artificially affects prices or trading volumes, such as "pump-and-dump" schemes, wash trades, or rumor-spreading. The SEC frequently relies on Section 9 and Rule 10b-5 for enforcement. In SEC v. Markowski (2002)[95], the court ruled that even if no investor directly loses money, creating a false market impression constitutes manipulation.

The FCA takes a similar stance, focusing on conduct that misleads the market or interferes with genuine price formation. The FCA's handbook explicitly defines manipulation, including practices like fictitious orders and price ramping. In FCA v. Da Vinci Invest Ltd (2015)[96]The FCA sanctioned traders for layering and spoofing—a tactic of placing fake orders to move prices.

SEBI's market manipulation framework under the PFUTP Regulations[97] covers a wide range of deceptive practices. In S. Gopalakrishnan v. SEBI[98] The Securities Appellate Tribunal emphasized that market integrity and investor protection are central to SEBI's mandate. SEBI has also cracked down on "pump-and-dump" schemes, front running, and circular trading, often using advanced surveillance systems to spot suspicious activity.

Enforcement Mechanisms and Regulatory Reach

The SEC wields broad enforcement powers, including civil fines, injunctions, and referrals for criminal prosecution. Its Division of Enforcement, supported by whistleblower programs and data analytics,

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[89] https://supreme.justia.com/cases/federal/us/445/222/
[90] https://tile.loc.gov/storage-services/service/ll/usrep/usrep521/usrep521642/usrep521642.pdf
[91] https://www.fca.org.uk/news/press-releases/tribunal-upholds-decision-financial-conduct-authority-find-ian-hannam-guilty
[92] https://www.sebi.gov.in/reports-and-statistics/reports/nov-2024/consultation-paper-on-proposed-review-of-the-definition-of-unpublished-price-sensitive-information-under-sebi-prohibition-of-insider-trading-regulations-2015-to-bring-regulatory-clarity-certainty-_88313.html
[93] https://www.sebi.gov.in/enforcement/orders/nov-2003/rakesh-agrawal-vs-sebi_16029.html
[94] https://www.mondaq.com/india/securities/1609620/insider-trading-regulation-global-comparison
[95] https://www.justice.gov/osg/brief/markowski-v-sec-opposition
[96] http://www.bailii.org/ew/cases/EWHC/Ch/2015/2401.html
[97] https://www.sebi.gov.in/legal/regulations/jan-2022/securities-and-exchange-board-of-india-prohibition-of-fraudulent-and-unfair-trade-practices-relating-to-securities-market-regulations-2003-last-amended-on-january-25-2022-_55604.html
[98] https://www.casemine.com/judgement/in/5af1fdfa18a681762b0904b3

actively investigates suspicious trading patterns. Recent developments, like the SEC v. Jarkesy (2024)[99] ruling, have reaffirmed the SEC's obligations to provide fair jury trials in certain cases, adding procedural safeguards to its already robust toolkit.

The FCA, too, has significant enforcement authority under FSMA and MAR. It can impose unlimited fines, prohibit individuals from working in financial services, and pursue criminal charges where appropriate. The FCA is known for its "dual-track" approach: it can choose administrative (civil) or criminal enforcement paths depending on the severity of misconduct.

SEBI has similarly robust enforcement powers. It uses the Integrated Surveillance System (ISS) and other tools to monitor markets in real time. SEBI can impose monetary penalties, market bans, and even initiate criminal proceedings under Indian law. Recent cases, like SEBI's action against officials of the Infosys case, have alleged insider trading[100], show the regulator's proactive approach to maintaining fair markets.

Key Differences and Jurisdictional Nuances

One of the biggest differences lies in the reliance on judicial interpretation versus codified rules. The SEC's approach is heavily shaped by case law, which has gradually refined the scope of insider trading and market manipulation. In contrast, SEBI relies primarily on explicit regulations, which are then interpreted and applied by tribunals like the Securities Appellate Tribunal (SAT).

The FCA sits somewhere in the middle. While it does not depend as heavily on court cases as the SEC, it also does not have the same level of statutory detail as SEBI's regulations. The FCA's pragmatic style—focused on proportionality and conduct-based enforcement—means that it's more flexible in dealing with evolving market abuses.

Another key difference is the international reach. The SEC's enforcement can extend extraterritorially under certain circumstances, as seen in SEC v. Scoville (2019)[101], where the U.S. courts held that conduct outside the U.S. can fall under U.S. securities laws if there is a significant impact on U.S. investors or markets. While SEBI's jurisdiction is typically confined to Indian markets, it has increasing cross-border cooperation through memoranda of understanding with other regulators.

While all regulatory bodies aim to preserve market integrity and protect investors, they bring unique legal traditions and regulatory cultures to bear. The SEC's common law-driven, principles-based model allows for flexibility but can result in uncertainty until courts clarify key issues. The FCA's blend of principles and explicit rules balances flexibility with clarity. SEBI's detailed regulatory framework provides strong guidance but requires consistent enforcement to be effective. Despite these differences, each regulator recognizes that insider trading and market manipulation erode investor trust and damage economic growth. Sharing information and learning from each other's enforcement practices can build more resilient markets in an increasingly interconnected world.

Challenges Faced by SEBI

The Securities and Exchange Board of India (SEBI) has been instrumental in shaping the Indian capital markets into a more transparent and investor-friendly environment. However, despite its rigorous framework and ongoing reforms, SEBI continues to grapple with numerous challenges, particularly when it comes to tackling market manipulation and insider trading. These challenges stem from regulatory

[99] https://www.whitecase.com/insight-alert/supreme-court-rules-sec-use-house-tribunals-unconstitutional-potentially-far-reaching

[100] https://taxguru.in/sebi/critical-analysis-sebi-prohibition-insider-trading-regulations-2015.html

[101] https://www.bloomberglaw.com/external/document/XCQNNGU0000000/capital-markets-professional-perspective-sec-v-scoville-the-tent

loopholes, enforcement limitations, and the rapidly evolving landscape of financial markets.

One of the foremost challenges that SEBI faces is addressing regulatory loopholes that emerge due to the dynamic nature of the securities market. SEBI's primary legislative tools include the SEBI (Prohibition of Insider Trading) Regulations, 2015, and the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Markets) Regulations, 2003. While these regulations comprehensively outline prohibited conduct, the innovative and adaptive strategies employed by market participants can often outpace regulatory updates[102].

A case in point is the practice of "shadow trading," where individuals trade based on insights about other companies indirectly connected to confidential information, thereby avoiding direct breaches of insider trading regulations[103]. Such loopholes challenge SEBI's capacity to respond effectively, as the letter of the law may not always capture the nuances of these complex transactions.

Another regulatory gap lies in the grey areas of related-party transactions and cross-holdings in group companies, where insiders might have access to unpublished price-sensitive information (UPSI) through indirect channels. These complexities necessitate continuous refinement of regulatory definitions and enforcement guidelines to capture emerging patterns of manipulation.

Enforcing insider trading and market manipulation regulations involves proving intentional misconduct, a task that often requires clear, concrete evidence of the use of UPSI. Indian courts and the Securities Appellate Tribunal (SAT) have repeatedly held that the mere possession of UPSI is not enough; SEBI must demonstrate that the insider traded while in possession of and because of the UPSI. This requirement places a heavy burden on investigators, especially when trading decisions might be influenced by multiple factors beyond inside information.

In the landmark case of Rakesh Agrawal v. SEBI, the SAT emphasized that while insiders may have had access to UPSI, without clear evidence of motive and benefit, insider trading cannot be conclusively established[104]. Such judicial standards, while necessary to protect legitimate trading, can make it difficult for SEBI to secure convictions, particularly when dealing with sophisticated actors skilled in obscuring evidence.

Further complicating matters is the principle of natural justice and procedural fairness. The Supreme Court's decision in Sahara India Real Estate Corp Ltd. v. SEBI (2012)[105] underscored the importance of balancing SEBI's powers with due process safeguards[(5)]. While SEBI has extensive powers to summon records and impose sanctions, it must also ensure that its actions do not overstep procedural boundaries—a balance that is often tested in enforcement proceedings.

The advent of algorithmic trading and high-frequency trading (HFT) has introduced new dimensions to market manipulation. Such trading strategies, while legitimate in principle, can be exploited for manipulative practices like spoofing and layering—tactics where traders place large orders with no intention of execution to create misleading price signals[106]. These practices are particularly challenging for SEBI to track, as they often involve split-second trades that require sophisticated data analytics to identify.

SEBI has responded by mandating stricter controls on algorithmic trading, including pre-trade risk checks

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[102] https://www.investopedia.com/terms/s/sebi.asp
[103] https://www.lexology.com/library/detail.aspx?g=5aa94869-da22-4f92-88d2-62c01df27f61
[104] https://www.sebi.gov.in/enforcement/orders/nov-2003/rakesh-agrawal-vs-sebi_16029.html
[105] https://indiankanoon.org/doc/158887669/
[106] https://www.investopedia.com/terms/h/high-frequency-trading.asp

and approval requirements for trading algorithms[107]. However, the sheer scale and complexity of such trading continue to test SEBI's surveillance capabilities, necessitating constant upgrades in technology and expertise.

Another emerging challenge is the growth of cryptocurrency markets and digital assets. While SEBI's jurisdiction does not formally extend to cryptocurrencies, the increasing interconnection between regulated securities markets and unregulated crypto-assets poses fresh challenges. For instance, insider trading allegations in crypto projects or token offerings can indirectly impact regulated entities or investor trust[108]. SEBI has repeatedly called for comprehensive regulatory coordination to address these evolving threats, highlighting the blurred lines between traditional securities and new digital instruments.

In an era of globalized capital markets, manipulative practices and insider trading schemes often involve entities or transactions that span multiple jurisdictions. Offshore accounts, layered corporate structures, and cross-border trades can be used to conceal manipulative activities. Although SEBI has signed memoranda of understanding (MoUs) with regulators in other jurisdictions and participates actively in the International Organization of Securities Commissions (IOSCO)[109] Obtaining evidence and enforcing judgments across borders remains a daunting task.

For example, manipulative schemes like "pump-and-dump" can originate outside India, leveraging global social media platforms and overseas trading accounts to affect domestic markets. In these cases, SEBI's reliance on information-sharing agreements and international cooperation can sometimes limit its ability to act swiftly and decisively.

A final challenge for SEBI is balancing the need to encourage innovation with the imperative of protecting investors. India's securities markets have seen rapid growth, fueled by technological innovation and the entry of new participants. SEBI has rightly supported this growth by promoting digitization, lowering entry barriers, and fostering a more dynamic market environment.

However, this very dynamism can be exploited by bad actors. As seen in cases of front-running and circular trading, where brokers or insiders exploit advance knowledge of large trades, SEBI must ensure that its regulatory regime does not inadvertently create opportunities for abuse. Crafting rules that are flexible enough to accommodate market innovation yet robust enough to prevent misuse remains a delicate task.

Future Perspective

Trading Regulations, 2015, emphasize preventive measures and procedural compliance. Recent amendments in 2025 expanded the definition of Unpublished Price Sensitive Information (UPSI) to include corporate litigation outcomes, fundraising activities, and credit rating changes, closing loopholes exposed during high-profile cases like the Adani-Hindenburg controversy[110]. This aligns with the SEC's "misappropriation theory," which prosecutes non-insiders exploiting confidential information, as seen in the Raj Rajaratnam case[111]. However, unlike the SEC and FCA, SEBI lacks criminal prosecution authority, relying instead on civil penalties, disgorgement, and market bans. The SEC's collaboration with the Department of Justice and the FCA's dual-track enforcement model (civil and criminal) enables swifter, more deterrent outcomes, such as the 2019 conviction of Fabiana Abdel-Malek in the UK[112].

[107] https://www.sebi.gov.in/legal/circulars/feb-2025/safer-participation-of-retail-investors-in-algorithmic-trading_91614.html
[108] https://www.shankariasparliament.com/blogs/pdf/sebis-concerns-around-crypto-assets
[109] https://www.iosco.org/v2/about/?subsection=mmou
[110] https://www.legalitysimplified.com/sebi-insider-trading-amendment-2025/
[111] https://www.directors-institute.com/post/breaking-down-sebi-s-march-2025-circulars-governance-esg-disclosure-norms
[112] https://www.directors-institute.com/post/breaking-down-sebi-s-march-2025-circulars-governance-esg-disclosure-norms

SEBI's postponement of mandatory ESG disclosures for value chains to 2026 reflects a phased approach to compliance, contrasting with the EU's stringent MAR requirements. While the Business Responsibility and Sustainability Reporting (BRSR) framework aligns with global standards like the International Sustainability Standards Board (ISSB), India's focus on "key value chain partners" (≥2% of procurement/sales) limits scope compared to the EU's extraterritorial mandates[113]. SEBI's governance reforms, such as tightened appointment processes for Market Infrastructure Institution (MII) executives, echo the SEC's emphasis on board accountability but face hurdles due to inter-agency overlaps with the RBI and IRDAI.

SEBI's whistleblower policies remain underdeveloped compared to the SEC's incentivized program, which recovered billions through tips. The regulator's 2024 Joint Surveillance Initiative with the RBI, pooling banking and trading data, demonstrates progress in combating cross-sector crimes[114]. However, bureaucratic delays hinder coordination, unlike the FCA's seamless collaboration with EU regulators post-Brexit.

ESG integration represents another pillar of SEBI's future strategy. By 2026, the regulator plans to enforce standardized ESG reporting norms for the top 1,000 listed companies, including mandatory disclosures on carbon emissions, supply chain ethics, and board diversity. This shift responds to global investor demand for transparency and aims to penalize greenwashing—a practice where companies exaggerate sustainability efforts. SEBI's alignment with frameworks like the International Sustainability Standards Board (ISSB) signals its ambition to position India as a responsible investment destination. However, challenges remain in harmonizing these standards with local realities, such as the informal sector's dominance and varying corporate readiness.

In combating insider trading, SEBI's 2025 amendments to Unpublished Price Sensitive Information (UPSI) definitions mark a significant leap. The updated rules now cover corporate litigation outcomes, fundraising activities, and credit rating changes, addressing gaps exposed during high-profile cases like the Adani-Hindenburg controversy. For example, undisclosed negotiations with private equity firms or impending litigation outcomes must now be classified as UPSI, requiring prompt disclosure to prevent asymmetric information advantages. SEBI has also proposed stricter penalties for violations, including disgorgement of profits and lifetime market bans, though enforcement remains hampered by resource constraints.

SEBI must navigate jurisdictional overlaps with agencies like the Reserve Bank of India (RBI) and the Insurance Regulatory and Development Authority (IRDAI). Coordinating with these bodies is essential to prevent regulatory arbitrage, particularly in cross-sector crimes like money laundering via stock markets. The 2024 Joint Surveillance Initiative with RBI, which pooled data from bank transactions and trading accounts, exemplifies progress in this area. However, bureaucratic delays and inter-agency competition often hinder such collaborations. SEBI's strategic shift from reactive penalties to proactive risk mitigation will define its role in a rapidly evolving financial ecosystem. As global markets watch India's rise as an economic powerhouse, SEBI's ability to adapt will not only shape domestic market integrity but also influence emerging economies seeking to replicate its model. The next decade will test whether SEBI can transcend its current limitations to become a benchmark for 21st-century financial regulation.

[113] https://www.cnbctv18.com/market/sebi-extends-deadline-for-retail-algo-trading-norms-august-2025-19582584.htm
[114] https://www.directors-institute.com/post/breaking-down-sebi-s-march-2025-circulars-governance-esg-disclosure-norms

Recommendations

To enhance the effectiveness of SEBI's regulatory framework in combating market manipulation and insider trading, several policy recommendations and enforcement enhancements are warranted in light of recent amendments and the evolving nature of India's capital markets. First, SEBI should further strengthen its surveillance and detection capabilities by investing in advanced technology, particularly artificial intelligence and machine learning systems, that can analyze vast volumes of trading data in real time to identify suspicious patterns and potential market abuse. While SEBI has already introduced reforms such as the expansion of same-day settlement (T+0) for the top 500 stocks and broadened the definition of unpublished price-sensitive information (UPSI) to include changes in business contracts and orders, the increasing sophistication of market participants necessitates a proactive, technology-driven approach to monitoring and enforcement[115]. AI-powered surveillance platforms can help flag anomalies indicative of insider trading or manipulation, enabling SEBI to intervene swiftly and efficiently before significant investor harm occurs.

SEBI should prioritize the integration and interoperability of regulatory data across financial market participants and intermediaries. The regulator's recent amendments to disclosure and listing obligations, including stricter compliance thresholds for high-value debt listed entities and enhanced related party transaction provisions for SME-listed companies, are steps in the right direction[116]. However, to prevent regulatory arbitrage and ensure a holistic view of market activity, SEBI must facilitate seamless data sharing with other financial regulators such as the Reserve Bank of India (RBI) and the Insurance Regulatory and Development Authority (IRDAI)[117]. Establishing a unified regulatory data repository would enable cross-verification of suspicious activities and close gaps that manipulators might exploit, especially in complex, multi-asset transactions.

Enforcement mechanisms should be made more robust by revisiting penalty structures and ensuring that sanctions are both swift and proportionate to the offense. The deterrent effect of enforcement actions is often undermined by protracted adjudication and relatively modest penalties. SEBI should consider adopting a tiered penalty framework that escalates sanctions for repeat offenders and egregious violations, including the possibility of criminal prosecution in collaboration with law enforcement agencies. The regulator's recent moves to simplify and expedite rights issues, enforce timely and accurate disclosures, and mandate stricter ESG and corporate governance standards for high-value debt listed entities demonstrate a commitment to operational efficiency and transparency[118]. However, these efforts must be complemented by a clear and consistent enforcement policy that leaves little room for ambiguity or delay.

SEBI should expand its investor education and whistleblower protection programs. Market manipulation and insider trading often come to light through tips from industry insiders or vigilant investors. By offering robust protections and incentives for whistleblowers, SEBI can encourage timely reporting of wrongdoing and build a culture of accountability within the financial ecosystem. The regulator's ongoing review of ESG disclosure requirements and increased focus on transparency in alternative investment funds (AIFs) underscore the importance of informed and empowered market participants[119].

[115] https://thelegalschool.in/blog/sebi-regulations
[116] https://saspartners.com/regulatory-updates_the-pulse_march-2025/
[117] https://www.linkedin.com/pulse/sebis-2025-rules-aif-category-2-essential-compliance-updates-mehra-ffhnc
[118] https://www.pwc.in/assets/pdfs/news-alert/regulatory-insights/2025/pwc_india_regulatory_insights_8_april_2025_sebi_amends_lodr_regulations_to_provide_corporate_governance_norms_for_listed_entities.pdf
[119] https://www.india-briefing.com/news/sebi-icdr-regulations-2025-amendment-rights-issues-disclosure-36844.html/

SEBI should regularly review and update its regulatory definitions and compliance requirements to keep pace with global best practices and emerging risks. The dynamic nature of capital markets, particularly with the rise of algorithmic and high-frequency trading, demands a flexible and adaptive regulatory approach. SEBI's phased implementation of new compliance rules for AIF Category II funds, which include stronger custodial oversight, better due diligence, and standardized reporting, exemplifies the need for regulations that reflect the risk profiles and operational realities of different market segments[120]. Periodic consultation with industry stakeholders, academic experts, and international regulators such as the U.S. SEC and the UK FCA would help SEBI benchmark its standards and anticipate future challenges.

SEBI should enhance its internal capacity by recruiting and training more specialized staff in areas such as forensic accounting, data analytics, and cyber forensics. The regulator's relatively modest workforce, compared to counterparts like the SEC, limits its ability to conduct in-depth investigations and respond to complex market abuses. Targeted capacity building, combined with the adoption of cutting-edge technology, will enable SEBI to fulfill its mandate more effectively in an increasingly digital and interconnected market landscape. The effectiveness of SEBI's regulatory regime against market manipulation and insider trading hinges on its ability to leverage technology, foster inter-agency collaboration, impose meaningful sanctions, empower whistleblowers, maintain regulatory agility, and build internal expertise. Recent reforms have laid a solid foundation, but sustained progress will depend on the regulator's willingness to innovate and adapt in the face of evolving market threats

Conclusion

The Indian capital market, with its vast potential and dynamic growth, has historically attracted both genuine investment and unscrupulous practices. This research paper has provided a comprehensive exploration of the pivotal role played by the Securities and Exchange Board of India (SEBI) in regulating and mitigating the critical threats of market manipulation and insider trading—two issues that have repeatedly tested the resilience and credibility of India's financial ecosystem.

Tracing the evolution of SEBI's regulatory framework, the paper highlighted how the agency was born out of necessity following a series of high-profile financial scandals, most notably the Harshad Mehta scam of 1992. Prior to SEBI's establishment, the regulatory environment was fragmented and inadequate, leaving the market vulnerable to manipulation and fraud. The statutory empowerment of SEBI marked a turning point, enabling it to enforce regulations, investigate malpractices, and impose penalties. Over time, with each new scam—be it the Ketan Parekh scam, the IPO scam, or the Satyam fraud—SEBI's powers and scope have been further expanded and refined, reflecting a continuous process of learning and adaptation.

The objectives and functions of SEBI have been central to its mission. SEBI seeks to protect investors, regulate and develop the securities market, and ensure fair practices among market participants. Its three-pronged approach—developmental, regulatory, and protective—has allowed it to address the needs of issuers, investors, and intermediaries alike. Through its developmental function, SEBI has promoted investor education, technological innovation, and the professionalization of market intermediaries. Its regulatory function is evident in the formulation and enforcement of rules for brokers, merchant bankers, and mutual funds, as well as in the oversight of corporate takeovers and public offerings. Most crucially,

[120] https://dpncglobal.com/sebis-2025-lodr-update-hvdles-compliance-sme-rpts-brsr-framework-revamp/

its protective function has centered on prohibiting insider trading and price rigging, fostering transparency, and upholding investor confidence.

The paper delved into the nature and techniques of market manipulation, elucidating how practices such as price rigging, circular trading, and dissemination of false information can distort the market, harm investors, and erode trust. Similarly, the phenomenon of insider trading—where individuals exploit unpublished price-sensitive information for personal gain—was examined in detail, highlighting its detrimental effects on market fairness and investor sentiment. The analysis underscored that both forms of malpractice not only result in financial loss but also undermine the very foundation of a free and fair market.

SEBI's regulatory measures to combat these threats have been robust and evolving. The introduction and periodic strengthening of the SEBI (Insider Trading) Regulations and the Prohibition of Fraudulent and Unfair Trade Practices (PFUTP) Regulations have provided a legal backbone for enforcement. SEBI has also responded to loopholes exposed by various scams by tightening KYC norms, enhancing surveillance systems, mandating stricter disclosure requirements, and extending its regulatory reach to new financial products and intermediaries. The agency's ability to adapt—moving from reactive enforcement to proactive regulation—has been instrumental in restoring and maintaining market integrity.

A comparative analysis with international frameworks revealed that while SEBI has made significant progress in aligning Indian regulations with global standards, challenges remain in areas such as cross-border enforcement, whistleblower protection, and technological sophistication. The study of landmark cases and scams further illustrated both the vulnerabilities of the market and the effectiveness of SEBI's interventions, providing valuable lessons for future regulatory strategies.

Despite these advances, the paper recognizes that new challenges continue to emerge. The rise of algorithmic trading, complex derivatives, and globalized financial flows demands constant vigilance and innovation from regulators. SEBI must continue to invest in technology, strengthen inter-agency and international cooperation, and foster a culture of ethical conduct and transparency among all market participants.

In summary, SEBI's journey from a nascent regulator to a mature and proactive guardian of the Indian securities market is marked by significant achievements and ongoing challenges. Its unwavering focus on investor protection, market development, and regulatory excellence has been crucial in building a more resilient and trustworthy capital market. However, the fight against market manipulation and insider trading is an ongoing one, requiring continuous adaptation, stakeholder collaboration, and a forward-looking regulatory vision. The future of India's capital market will depend on SEBI's ability to anticipate risks, close regulatory gaps, and uphold the highest standards of market integrity and investor confidence.

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