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“INSIDER TRADING UNVEILED: CRIME, ETHICS, AND CORPORATE GOVERNANCE FAILURES”

AUTHORED BY - GEETA KAUSHIK
L.L.M (CRIMINAL LAW)

ABSTRACT

The regulation of insider trading represents a critical component of securities law, aimed at preserving the integrity, fairness, and transparency of financial markets. In India, the phenomenon of insider trading has evolved alongside the rapid growth of capital markets, increased corporate participation, and globalization of financial transactions. The present study, titled “*Criminal Liability for Insider Trading in India: Evaluating Enforcement Mechanisms and Judicial Effectiveness*,” seeks to critically examine the legal, regulatory, and judicial dimensions governing insider trading, with a particular focus on the effectiveness of criminal liability as a deterrent mechanism.

Insider trading, broadly defined as the buying or selling of securities by individuals possessing unpublished price-sensitive information (UPSI), raises significant concerns related to market fairness, investor confidence, and corporate governance. The misuse of privileged information undermines the principle of equal access to information, which forms the bedrock of efficient capital markets. While insider trading is recognised globally as a form of white-collar crime, its detection, prosecution, and adjudication present unique challenges due to its intangible nature, reliance on circumstantial evidence, and the complex financial structures often involved.

In the Indian context, insider trading regulation is primarily governed by the Securities and Exchange Board of India (SEBI) under the SEBI Act, 1992, and the SEBI (Prohibition of Insider Trading) Regulations, 2015, as amended from time to time. These regulations have undergone significant transformation from the earlier 1992 framework, incorporating broader definitions of “insider” and “connected person,” enhanced disclosure requirements, and stricter compliance mechanisms. The study traces the historical evolution of insider trading laws in India, examining key committee reports such as the Bhabha Committee, Sachar Committee, Patel Committee, and the N.K. Sodhi Committee, which have shaped the contemporary regulatory framework.

A central objective of this research is to evaluate the extent to which criminal liability—through

provisions such as imprisonment, fines, and disgorgement—serves as an effective deterrent against insider trading. While SEBI possesses extensive investigative and quasi-judicial powers, the reliance on civil and administrative penalties has often overshadowed criminal prosecution. This raises important questions regarding the adequacy of enforcement mechanisms and whether the threat of criminal sanctions is sufficiently utilized to curb insider trading practices.

INTRODUCTION

This article evaluates the ethical dilemma faced in the capital market concerning insider trading. Firstly, we begin the chapter by elucidating “insider trading as a white-collar crime”. To achieve this, an examination of white-collar crime’s meaning, diverse categories, and their corresponding legal ramifications within the framework of prevailing laws, regulations, and rules applicable to both the corporate sector and multinational corporations is done. This study will investigate the important concepts of insider trading and its definitions, which makes us understand that it is a white-collar crime. It is worth noting that insider trading is carried out by a person in esteemed positions like directors, auditors, managers, legal advisers, etc. so in this chapter we explore important definitions given by SEBI (PIT) Regulations 2015 which describe the categories coming under the purview of insider. Additionally, this chapter looks forward to the arguments on insider trading and issues enlightening insider trading. The further chapter explores the relevance of corporate governance in insider trading and concludes thereafter.

2.1 INSIDER TRADING A WHITE-COLLAR CRIME

Undoubtedly, insider trading is classified as a white-collar crime. Insider trading involves the illicit dealing of stocks using undisclosed knowledge, often carried out by persons in influential positions inside a firm, such as executives or workers. This criminal activity is distinguished by its covert nature, since the individuals engaged want to use their privileged access to confidential information for their financial benefit, frequently to the detriment of other investors who lack the same privileged insights. Insider trading is prohibited in several nations, including the US, and leads to both civil and criminal consequences.

Insider trading is an array of non-violent white-collar criminal activity. It entails covert and deceptive tactics to generate wealth illicitly. Unlike other criminal activities, this offence does

not include causing bodily injury or engaging in confrontations. Insider trading laws specifically target the buying and selling of stocks and other types of financial assets. The SEA regulates this in the US, whereas the FSMA and CJA apply in the UK. As well as in Singapore it is governed by the MAS. These laws serve to oversee and supervise the trading of securities to deter and prevent illicit actions.

2.2 RELEVANT PROVISION IN SEBI PROHIBITIONS OF INSIDER TRADING REGULATIONS 2015 WHICH HIGHLIGHTS THE LIKELIHOOD OF WRONGDOERS OF WHITE COLLAR CRIMES

The “connected persons” are defined in the following 2(1) (d) Reg. as an individual associated with an organization is granted exclusive access to classified information. This includes persons who have had any affiliation with the firm, whether direct or indirect, in the six months leading up to the alleged occurrence of insider trading. Frequent connections with corporate executives enable people to get a deep understanding of the organization’s day-to-day activities. Employment, a fiduciary role, a contractual relationship, or a position as a director, officer, or employee of the business can establish this link.

Individuals who maintain a professional affiliation with the organization, such as a statutory auditor, company secretary in practice, secretarial auditor, legal advisor, or any other individual with a business association, whether permanent or temporary, are considered connected persons. Nevertheless, any such association must enable the individual equipped with either immediate or subsequent utilization of inside knowledge that may impact the price of a security. *PVP Ventures Limited & Anr. V. SEBI* In this instance, SEBI determined that the “Managing Director” is considered a linked person, while the subsidiary of said company is also considered a connected person. In *Deep Industries Ltd., re, 44* SEBI’s members firmly believe in explicitly recognizing a company’s managing director as a linked person. This group naturally includes the close relatives of the linked person, including those related by blood or marriage, who are likely to have an impact on or be affected by the connected person’s activities. Here we can say that our spouse, father, mother, brother, sister, and children, and the parent’s brother/sister of the spouse is also considered as a connected person.

The *Hindustan Unilever v. SEBI* case is a relevant reference for examining the securities of a holding company, associate company, or subsidiary firm. The statement emphasizes that persons associated with these organizations, particularly those in important positions of

responsibility, must adhere to certain regulatory requirements and are closely monitored according to SEBI norms. The esteemed SAT determined that both of them being under the same parent company, are considered connected entities.

According to reg 2(1)(d)(ii)(c) any intermediaries that are registered with SEBI and have associations with the firm whose securities are implicated in insider trading, together with their employees and directors, would be considered as connected persons. The term “company” in this context refers to a publicly traded firm. The SEBI has explicitly said that this interpretation includes any firm, the director, their immediate family, or their banker directly or indirectly associated with. This policy guarantees a wide-ranging and thorough implementation of legislation against insider trading, intending to prevent the improper use of UPSI inside any associated organizations. According to SEBI, this term specifically refers to a listed company, to whom the undisclosed PSI may be relevant.

In the case of *Palred Technologies Ltd v SEBI* it was noticed by SEBI that the presence of common friends on Facebook might serve as a valid criterion for establishing relationships. The issue of *Deep Industries Ltd* included the use of Facebook acquaintances or friendships as a basis for establishing a link. SEBI used the observation that the Managing Director and his spouse expressed appreciation for many photographs featuring certain individuals as evidence to assert a perceived connection between these individuals and the Managing Director.

And Regulation 2(1) (f) defines “immediate relative.” As per the above two definitions of SEBI Regulation, we can understand that insiders include connected person and their relatives who are enraged by the illicit practice of white-collar crime. The PIT Regulations 2015 are designed to enforce stringent oversight and deterrence of insider trading, a significant kind of white-collar crime.

2.3 EXPLORING THE ETHICAL AND LEGAL DEBATES SURROUNDING INSIDER TRADING

Insider trading is deemed to be unlawful and is commonly regarded as morally questionable. Notwithstanding its illegality and widespread disapproval, a persistent minority maintains that insider trading serves as an effective mechanism to incentivize leaders and foster innovation. Yet these defences essentially presuppose that the financial resources of individual insiders constrain the magnitude of insider trading. This minority asserts that the excessive gains

obtained by insiders, to the detriment of outsiders, are seldom substantial enough to induce outsiders to divest from the impacted stock. Likewise, the prospective advantages of insider trading are never substantial enough to compromise the ethical behavior of managers. Consequently, insider trading yields benefits for shareholders that surpass its short-term detriments.

The subject matter has garnered considerable traction within the media sphere and has, for a subset of individuals, evolved into a quintessential representation of the erosion of ethical standards within the realm of commercial transactions. The legality hinges upon the timing of the transaction, rendering it either illicit or permissible. This study undertakes a comprehensive analysis of the primary ethical contentions levied against the menace. The primary rationale forbidding insider trading resides in its propensity to erode the fiduciary bond that constitutes the very essence of commercial operations within the Indian context.

While meticulously examining the leading ethical arguments against insider trading. The contentions can be categorised into three primary divisions. Firstly, asserts upon principles of equity. Secondly, arguments grounded in the realm of intellectual property rights, and finally arguments focused on potential detriment inflicted upon both average investors and the broader market.

I attempt to elucidate the underlying rationales that substantiate the existence of regulations on the matter. Before delving into the intricacies of the concept known as insider trading, it is imperative to establish a foundation of preliminary clarification. First, after examining the definition of insider and trading given under SEBI (PIT) Reg., 2015, the next point to ponder is who is involved in this scandalous. Regulation 2(1)(d) defines a connected person which includes all the key managerial persons who possess a high esteem standard and respect in society. It is already examined in this chapter earlier this elucidation unequivocally asserts that the act of divulging or abstaining from divulging information is equally applicable to individuals beyond those who hold positions of authority within a corporation. Individuals who obtain knowledge from individuals with privileged access to information, as well as those who assume a temporary insider role while engaging in tasks on behalf of the organization, can assume the responsibility of insiders.

Take, for instance, individuals such as financial printers or newspaper columnists, who, despite not being considered insiders in the strict technical sense, have still been found guilty

of engaging in the illicit practice. Looking into the concept of fairness arguably, the prevailing reasons often attributed to the ethical condemnation of insider trading revolve around its perceived inequity. Advocates of the equity argument argue that insider trading's main issue is the unequal distribution of knowledge between the parties involved in the trade. The disparity in the availability of confidential information leads to an inequitable trade environment, giving one side an unjustifiable edge over the other. It is to be noted that trading ought to transpire within an equitable framework, as disparities in information tend to skew the balance in favour of one participant while disadvantaging the other. There exist two distinct variations of the fairness argument about insider trading. The initial posits that the inherent unfairness stems from the asymmetry of information possessed by the involved parties, while the subsequent version makes that the lack of equitable utilization of knowledge renders inherently unjust.

In this scenario not sharing the data can be deemed deceptive due to the inherent bond of trust and reliance established between the involved parties. However, this implies that engaging in the practice of trading based on privileged information is morally objectionable, not due to its infringement upon a broad concept of equity, but rather due to the presence of a breach in one's fiduciary obligation. Indeed, instances of insider trading that do not include a violation of the legal responsibility of acting on the greatest behalf of customers would not be considered unethical.

FAIRNESS

Some proponents have supported the fairness argument the lucidity of this notion is most evident in the case of *Chiarella v. US69*, wherein a verdict was rendered to annul a person's conviction who was involved in the act of transaction founded on privileged material. Accordingly, the principles of common law, the act of misrepresentation, when undertaken to induce dependence on the erroneous assertion, is deemed to be fraudulent. Disclosure is required when one person has inside knowledge that another person has the right to be aware of, often owing to a fiduciary or comparable connection between them.

Dirks v. SEC the court restated the notion that there is no general obligation to provide information prior to participating in trading activities that include significant non-public knowledge. It is crucial to acknowledge that if this line of reasoning is valid, the legal and

ethical consequences of insider trading are contingent upon the deal between the fiduciary and the organization they are representing. Participating in insider trading does not violate fiduciary responsibilities and would not be deemed immoral unless it directly contradicts the opponent's interests or the counterparty had openly asked or been led to anticipate the revelation of such information. Nevertheless, one may argue that insider trading is inequitable since insiders possess non-public knowledge that is not readily available to the average investor. According to advocates of this alternative perspective on fairness, the significance lies not in the informational advantage possessed by insiders, but rather in the inherent unreliability of this advantage, which renders it impervious to the diligent efforts and innovative strategies used by the average investor. Regardless of the diligent efforts exerted by the individual in question, their inability to get confidential information stems from its legal protection. The rationale for this perspective is rooted in the belief that the fundamental inquiries about insider trading concern the methods used to get privileged knowledge and the justifications for its utilization.

PROPERTY RIGHTS

The main emphasis of the second argument on the right to ownership of data represents the core issue. Observing the analysis of economists and legal scholars, it is duly acknowledged that information holds inherent value, thereby warranting its classification as a form of property. In our present societal framework, it is indeed the case that we accord a certain status of ownership to specific categories of knowledge, such as trade secrets and inventions, thereby safeguarding them through legal means. Advocates of the property rights perspective posit that information of a tangible nature, which is not publicly accessible, can be classified as a form of property. Consequently, they argue that engaging in insider trading is morally objectionable due to its infringement upon these property rights.

If we consider inside information as a form of a tangible asset, one must reflect upon the rightful ownership of said asset. In what manner does the acquisition of information manifest a bias towards one individual as opposed to yet another? This inquiry poses a considerable challenge, as the nature of information diverges significantly from other forms of property that are more tangible in essence. However, a compelling contention posits that information is the rightful domain of those who explore, initiate, or generate it.

By the eloquent words of Bill Shaw, as expressed within his scholarly article, it is duly stated that the founder of the information, be it an individual or a corporate entity, possesses both ownership and dominion over this valuable asset much akin to their possession and control over other proprietary commodities. Henceforth, when a corporation consents to a transaction, conceives an innovative creation, or unearths untapped reservoirs of natural resources, it acquires a proprietary entitlement to said information, thereby warranting sole utilization thereof to maximize its financial gains.

It is imperative to recognize that the ownership of the information lies with the firm itself rather than with the individual employees of said firm. Indeed, it is a settled fact that within any given organization, there invariably exist specific individuals who assume the responsibility of arranging the negotiation process, conceptualizing innovative products, or unearthing valuable resources. However, their ability to accomplish such tasks is contingent upon the support and endorsement bestowed upon them by the formidable power and authoritative stature of the organization. The personnel of the organization, including but not limited to its staff, executives, administrators, and board members, do not possess any inherent entitlement to access the information, just as they do not possess any inherent entitlement to the organization's proprietary material data or patent about things that contribute to the advance of on behalf of the organization. The entity in question catalyses the generation of information, thereby endowing said information with inherent value after its inception.

According to Victor Brudney's perspective, the individuals with privileged access have obtained the pertinent knowledge at the enterprise's detriment, to conduct business activities for the overall benefit of all stockholders, completely detached from any personal gains derived from trading in the company's securities. There exists no justifiable rationale for granting them the privilege to engage in trade for their personal gain solely on the grounds of possessing said information. If this evaluation is indeed accurate, it posits that indulging in insider trading is morally objectionable due to its inherent nature as a manifestation of illicit appropriation. ⁸¹The act in question bears an impression of theft, albeit not entirely consistent, as the individual utilizing privileged knowledge does not impede the company's access to said information.

The individual engaging in insider trading misappropriates, as delineated by legal statutes, confidential information belonging to the corporation, and proceeds to exploit it in a manner

inconsistent with its intended purpose, solely for personal financial gain. The emergence of the “misappropriation theory” gaining acceptance within the judicial system and assuming a prominent role in the prosecution of insider trading cases is a development that can be anticipated with a reasonable degree of expectation.

The misappropriation theory, a pivotal factor in the legal proceedings against R. Foster Winans, a journalist affiliated with the esteemed journal, exerted significant influence. Winans engaged in the practice of trading and revealing the confidential data of his esteemed “Heard in the Street” column to external parties. This theory possesses a considerable degree of persuasiveness, within the confines of its current scope. But it is not enough to just say that secret trading is always wrong or that it should be against the law.

If one were to consider insider information as the proprietary asset of the organization from which it originates, the ethical transgression of utilizing said information would solely hinge upon the explicit prohibition set forth by the organization. If the establishment does not enforce a prohibition on the practice, it appears to be entirely permissible. Advocates of insider trading argue that the ban of this practice was not widely implemented by corporations until more recent times when it garnered significant attention from regulatory bodies.

Manne and other proponents have put out many justifications for why shareholders should voluntarily engage in contractual arrangements. The primary contention posited is that the allowance of insider trading would function as a catalyst for the generation of additional information. Engage in the consolidation of additional business transactions, conceive novel commodities, or undertake further scientific breakthroughs. The proponents contend that such a stimulus would engender augmented returns for stakeholders over an extended temporal horizon. By acquiring pertinent knowledge, the organization can effectively optimize its resources, thereby resulting in fiscal savings. The proponents contend that such a stimulus would result in enhanced profitability for shareholders over an extended time frame. By acquiring and utilizing pertinent data, the organization can effectively optimize its operations, thereby resulting in substantial cost reduction for the company. Moreover, advocates contend that the act of performing insider trading will enhance competitiveness. The sole rationale behind the prohibition of firms granting employees the privilege to engage in trading based on insider information would be predicated upon the potential detriment inflicted upon fellow investors or the broader societal fabric.

HARM

Insider trading is subject to two primary harm-based contentions. The initial assertion proposes that the act of engaging in trades with individuals possessing privileged information is detrimental to the welfare of regular investors. Conversely, the subsequent contention asserts that insider trading erodes trader's assuredness and dependability in the financial sector, thereby prompting them to withdraw their investments and consequently inflicting harm upon the market in its entirety. We understand the two arguments in a sequential manner.

Proponents of insider trading frequently assert its status as a victimless crime, indicating the absence of harm inflicted upon any party.

Moving to ascertain the relevance of corporate governance in preventing insider trading. For the same, the principles of corporate governance in insider trading are studied substantiating the legal mechanism. Then the study ponders the kinship between insider trading and corporate governance by examining some evident cases where insider trading has been found as a symptom of a much bigger corporate governance issue. The rapid expansion of privatizations, ongoing planetary recessions, and the evolution of financial institutions have strengthened the enhancement of corporate governance procedures.

2.4 PRINCIPLES OF CORPORATE GOVERNANCE IN INSIDER TRADING

Corporate governance is of paramount importance for investors since it showcases a company's strategic direction and ethical conduct. Robust corporate governance cultivates confidence amongst stakeholders and the wider society. As a result, this promotes financial sustainability by creating long-term investment opportunities for those involved in the market. Corporate governance is crucial in avoiding fraudulent trading since it fosters openness, accountability, and ethical conduct inside of a corporation. It sets down regulations and protocols that dictate the conduct of those with privileged access, including directors, executives, and workers, to prohibit their exploitation of confidential information for personal benefit.

Essential components of company governance that help prevent insider trading are stringent disclosure obligations, autonomous board supervision, internal checks and balances, a code of conduct and ethical guidelines, and periodic audits. Corporate governance, through the promotion of integrity and compliance, serves to prevent and identify instances of insider

trading. We can discuss the vital principles of corporate governance in detail

ACCOUNTABILITY

The obligation to provide justification for a company's actions is derived from its inherent accountability. This principle delineates the obligations of the governing body in presenting an assessment to unveil the organization's position. The responsibility for maintaining risk administration and internal oversight mechanisms lies with the governing body. In addition, the executive team bears the weight of maintaining ongoing interaction with stakeholders. In corporate sectors, the governing body is implied to conduct the business adhering to the rules and regulations.

In India the SEBI has instituted many rules for listed entities, notably the SEBI Listing Obligations and Disclosure Requirements Regulations, 2015 which enhance openness and governance standards. Clause 49 of the SEBI principles on corporate governance mandates that listed businesses comply with certain criteria concerning board composition, transparency, and shareholder entitlements.

RESPONSIBILITY

In this context, we observe the improper utilization of undisclosed information by individuals associated with a corporation who bear fiduciary responsibilities towards shareholders and stockholders. This dereliction of trust ruins the core principles of corporate governance. The Executive Committee possesses the jurisdiction to render decisions that advocate for the interests of the various entities. It is incumbent upon them to ensure effective oversight of the organization's operations, as well as monitor the company's accomplishments. During the implementation of the actions, the Board of Directors must act in a manner that aligns with the optimal welfare of the organization. Additionally crucial issue to be examined is the credence of the executive governing body on the organization's investors in terms of assessing the corporation's adherence to its contractual commitments. For example, as we consider the OECD promulgated generally acknowledges the guidelines that function as a standard for exemplary corporate governance practices. The OECD Fundamentals highlight accountability, openness, and equitable treatment of stakeholders. Although non-binding, they have significantly influenced the development of governance standards worldwide.

TRANSPARENCY

Insider trading frequently transpires covertly, as individuals with privileged access engage in trading activities based on undisclosed information, thereby undermining trust in corporate governance mechanisms, and ultimately tarnishing the company's reputation. The principle of transparency encompasses the corporation's commitment to being open by providing accurate and succinct information to its equity investors. Participants should be granted the right to remain informed about the operations, strategies, and potential risks tied to the firm. When a company demonstrates transparency towards its stakeholders, it fosters a sense of trust and assurance in the stakeholders regarding the company's management processes and decision-making processes.

INDEPENDENCE

In a company or corporation, strong corporate governance requires the presence of autonomy specifically within the key component of a corporation's top executives, namely the Board of Directors. This entity must possess exceptional capabilities to make investment decisions grounded in business pragmatism. The BODs, as one body, are responsible for safeguarding shareholder's worth. To further these purposes, it is necessary to foster cooperation between both board members and non-executive players. Non-executive directors must retain autonomy from management and continuously provide objective commercial assessments in order to properly execute their tasks.

ETHICAL BEHAVIOUR

The intentional act of confidential trading compromises the ethical and cultural principles that are integral to organizations.²⁵² The absence of repercussions for employees and executives who observe instances of secret trading yields the development of a corporate environment characterized by unethical conduct, reduced employee motivation, and a decline in confidence in organizational leadership. The phenomenon can potentially jeopardize the overall efficacy of corporate governance protocols. The ethical conduct of an entity requires it to maintain a constant awareness of prevailing issues and direct its efforts toward their resolution. Consequently, the reputation of the entity in the marketplace becomes more robust. The establishment of effective corporate management serves as the foundational step in the pursuit of ethical behaviour in the companies. It can be addressed by establishing code of conduct and guiding the employees as well as executives in ethical decision making. The participants in

this context encompass individuals who hold shares, individuals who serve as directors, and individuals who hold officer positions. They play significantly in the restructuring of the financial market. In the context of this financial development, various illicit activities have emerged, including insider trading, wherein individuals involved in corporate governance engage in fraudulent appropriation.

2.5 KINSHIP BETWEEN CORPORATE GOVERNANCE AND INSIDER TRADING

The intricate interplay between corporate governance and insider trading engenders a profound examination of the dynamics inherent in the realm of regal authority within the corporate sphere. Upon careful examination of the annals of history, one cannot help but discern the persistent presence of a recurring motif, namely the perennial conflict that ensues between the cherished concept of individual autonomy and the formidable force wielded by established institutions. In the present discourse, our attention is captivated by the intricate matter of harmonizing the formidable influence wielded by corporate entities with the imperative demands imposed by the democratic framework.

The advent of the contemporary corporation has not only engendered substantial affluence but has also facilitated the exhibition of individual ingenuity and the cultivation of personal aptitude. It concentrates mainly on the interconnections among corporate executives, the BOD, and the stakeholders, who serve as the custodians of access. The interdependence among the chairman and board necessitates a shared responsibility. The source of the chairman's authority emanates from that of their respective boards. The duty entails making guarantees that the business operates within moral and legal bounds and that therefore assets and data are not mishandled or exploited. Contrarily, the practice of secret trading is the process of executing financial trades utilizing hidden or confidential wisdom. It is prohibited due to the fact it affords elites a disproportionate benefit above other traders and enables them to generate wealth at other people's peril.

The famous Enron case explains that a multinational firm imploded as a result of accounting scams and deficiencies in corporate governance. The corporation used intricate accounting methods to conceal debt and exaggerate earnings, so deceiving shareholders and authorities. While openly marketing the company's stock to investors, executives, including the CEO and Chairman, sold significant portions of their shares based on inside information about the company's failing financial situation. By permitting conflicts of interest between Enron and its special purpose businesses, the board of directors disregarded their supervisory responsibilities. A profound systemic failure was shown by the external auditors' complicity

in the scam as well as the board members' lack of independence.

In another case Barclays LIBOR Scandal of UK which penalized for rigging the London Interbank Offered Rate to advantage of its trading positions, with numerous other major banks involved in the scandal. Traders disseminated confidential information to synchronise their submissions, so using insider knowledge for financial gain. The

After disclosing private boardroom conversations to Rajaratnam of Galleon Group, Rajat Gupta, a director was found guilty of insider trading. In the case of corporate governance Gupta's case exposed deficiencies in internal controls over the dissemination of sensitive information and underscored the dangers associated with senior persons violating fiduciary responsibilities. The violation of trust constituted a definitive management collapse since directors are obligated to safeguard shareholder interests by maintaining the confidentiality of boardroom deliberations.

From the above-mentioned instances it is evident that by making certain the executives and the board of directors retain the highest norms of legal and moral actions, corporate governance can be considered as a strategy to avert insider trading. Clear policies must be implemented on rivalries between competing interests and insider trading, by way of regular disclosure and reporting demands, and independent auditing committees, as well as additional elements that contribute to successful corporate governance systems, ought to be present. Specific guidelines on concentrations associated with interests and trade secrets, periodic disclosure and reporting necessities, unbiased audit committees, and other elements of effective corporate governance systems should all be present.

Insiders can more easily engage in illegal activities like trading in confidential information if the organization does not have effective corporate governance systems in place. Good corporate governance and insider trading are thereby closely linked, and enterprises that place the greatest emphasis on good governance are more likely to steer clear of the risks of illicit financial dealings. Enhancing the efficacy of regulation within a market leads to achievements along with the amelioration of corporate governance practices. One of the research papers¹²⁷ focused on examining the rapport between corporate governance and insider trading activities in publicly traded companies in Malaysia. The paper demonstrated that insider purchases are significantly impacted by the size of the board and the amount of salary paid to executives. Hence, we can conclude that the study at hand has discerned that sound corporate governance is intricately tied to the vigilant oversight of management.

This oversight is facilitated by certain attributes of the corporate board and ownership structure, which have been empirically associated with enhanced efficacy in monitoring corporate

management. The implementation of this proficient surveillance mechanism serves to mitigate instances of opportunistic insider trading perpetrated by corporate executives.

Conclusion:

Insider trading, as examined in this chapter, unequivocally constitutes a form of white-collar crime that undermines the integrity, fairness, and transparency of financial markets. The legal framework, particularly under the SEBI (Prohibition of Insider Trading) Regulations, 2015, establishes a comprehensive mechanism to identify insiders, regulate their conduct, and impose both civil and criminal liabilities. However, the issue of insider trading extends beyond mere legal prohibition and enters the domain of ethical reasoning and corporate responsibility.

The ethical debates surrounding insider trading reveal fundamental concerns regarding fairness, fiduciary duty, and the misuse of confidential information. While certain arguments attempt to justify insider trading on grounds of efficiency or incentivization, these justifications fail to outweigh the inherent inequity and breach of trust it causes within the market system. Furthermore, the recognition of information as a form of property reinforces the view that its misuse for personal gain amounts to a form of misappropriation.

Crucially, the chapter highlights that effective corporate governance serves as a primary safeguard against insider trading. Principles such as transparency, accountability, independence, and ethical conduct play a pivotal role in preventing the misuse of unpublished price-sensitive information. Historical instances and regulatory observations demonstrate that weak governance structures often facilitate insider misconduct, whereas strong governance frameworks significantly reduce such risks.

In conclusion, insider trading is not merely a legal violation but a manifestation of deeper governance and ethical failures within corporate structures. Strengthening corporate governance mechanisms, ensuring strict regulatory enforcement, and fostering a culture of ethical compliance are essential to curbing insider trading and maintaining investor confidence in the securities market.