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With this thought, we hereby present to you

THE IMPACT OF SECURITIES FRAUD: INSIDER TRADING, MARKET MANIPULATION AND REGULATORY RESPONSES.

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ABSTRACT

An integral part of the nation's financial system, the Indian capital market has been marred by cases of securities fraud, including insider trading and market manipulation. Such illegal activities have very serious negative effects on the economy and finances, compromise market integrity, warp security values, and seriously erode investor confidence. The present research aims to explore the extent and impact of these securities frauds to provide a comprehensive analysis of their impact on the financial system. It explains complex strategies used by fraudulent participants for market manipulation by analysing several major cases. The two main components of financial crimes include market manipulation, that involves the artificial alteration of the price of stock, and insider trading, where the person in the know trades for a profit based on his access to private information. Other than depriving real investors of their money, the activities also distort the market by deterring honest competition and investment. To stop this fraud, the SEBI created regulatory mechanisms. This paper assesses the effectiveness of these mechanisms. It looks at the recent amendments of SEBI to enhance oversight of the market, legal frameworks, and enforcement actions. It also discusses the ethical dilemmas, privacy issues, and enforcement challenges that regulators face in trying to ensure market integrity. The persistence of securities frauds over time speaks to the need for continuous monitoring and improvement, even in the face of strict regulatory measures. The report concludes with policy recommendations to strengthen investor protection, promote moral corporate governance, and enhance the regulatory environment. The study promotes a multi-faceted approach to protect the financial system from the adverse effects of insider trading and market manipulation and underlines the importance of technological advancements

and international cooperation. To regain and maintain investors' confidence in the Indian capital market, this study aims at the crucial requirement of sound regulatory frameworks and proactive measures.

KEYWORDS: Insider Trading, Market Manipulation, Securities Fraud, Financial Crimes, SEBI Regulations, Investor Trust, Corporate Governance, Market integrity

INTRODUCTION

Besides being regulatory violations, market manipulation and insider trading are destructive forces that undermine confidence in the financial system and open the door for more serious financial crimes. Insider trading and market manipulation have long been a threat to the integrity of the Indian capital market. These unethical practices, despite stern laws and stringent scrutiny by the Securities and Exchange Board of India (SEBI), continue to erode investor confidence and distort the very notion of market fairness. This research delves into the dark underbelly of the Indian capital market by examining the occurrence and effects of insider trading and market manipulation. It discusses notable cases that depict the sophisticated techniques adopted by perpetrators and subsequent actions of the Securities and Exchange Board of India (SEBI). This paper seeks to critically assess the extent to which current regulatory structures work towards curbing such practices. The study aims at highlighting the inadequacies in the existing regulatory responses and make recommendations for improvement towards transparency and equity in the market. This is done by reviewing salient case studies and involving expert interviews. Conclusions drawn from the research will further knowledge on how best to effect regulations in protecting investors and the integrity of the market.

LEGAL FOUNDATIONS OF INSIDER TRADING IN INDIA

Insider trading is the buying and selling of a firm's equity based upon access to material, non-public information. Legal in appropriate circumstances, insider trading can become illegal when trades are made in reliance on a duty of trust owed to obtain or maintain positions of insider status confidentially. The term therefore covers both lawful and unlawful activities. Insider Trading in India is regulated under Section 195 of the Companies Act, 2013¹, and SEBI (Prohibition of Insider Trading) Regulations, 2015²

¹ The Companies Act, No. 18 of 2013, § 195, India Code (2013).

² **The SEBI (Prohibition of Insider Trading) Regulations, 2015, Gazette of India, Part III, Section 4 (Jan. 15, 2015).**

+The regulations define insiders who include directors, employees, and any person who has access to unpublished price sensitive information, close the trading windows, mandate a code of conduct, require disclosure of trading activities, prohibit communication of unpublished price sensitive information and aims at achieving fairness and ensuring investor confidence in a fair trading environment. Insider trading devalues market fairness and transparency by allowing those with privileged information to reap an unfair advantage, resulting in mispriced securities and resource misallocation.³ It further deteriorates investor confidence and compromises the integrity of financial markets.

Insider Trading: A Threat to Market Integrity

The role of the stock market in Indian economic growth justifies the seriousness with which this issue needs to be addressed. Notorious insider trading cases have exposed weaknesses in the regulatory framework, resulting in instant financial loss and long-term damage to reputation. Retail and global investor inclusion into the system further calls for refining insider trading regulations. Reviewing past incidents can help improve legal and regulatory measures to ensure market integrity, investor protection, and national economic growth. Insider trading undermines the fairness and transparency of financial markets, creating an uneven playing field and eroding investor confidence.⁴ This can lead to mispriced securities and a misallocation of resources, causing financial losses for uninformed investors and reputational damage for companies involved in such scandals. Legal and regulatory consequences, including fines and imprisonment, are enforced to maintain market integrity. On a broader scale, insider trading can reduce the efficiency of capital markets, hindering economic growth and development.

In the world of Insider Trading, material non-public information is the secret weapon that can make or break a trader's success, which encompassing financial data, mergers and acquisitions, regulatory approvals, legal proceedings, product launches, and management changes. Insiders use this confidential information to gain unfair advantages in the stock market, which underscores the complexity and breadth of insider trading activities. Insiders exploit non-public information through various mechanisms, such as trading on material non-public information

³. Vaibhav Shahi, Regulation and Analysis of the Concept of Insider Trading: A Critical Analysis, Legal Service India, <https://www.legalserviceindia.com/legal/article-16704-regulation-and-analysis-of-the-concept-of-insider-trading-a-critical-analysis.html>

⁴. Bhatt & Joshi, Insider Trading: Evolution, Regulation, and Challenges, TaxGuru (2024), <https://taxguru.in/sebi/insider-trading-evolution-regulation-and-challenges.html#:~:text=Despite%20significant%20progress%2C%20insider%20trading%20continues%20to%20pose,criminal%20liability%2C%20and%20the%20need%20for%20investor%20protection.>

(MNPI), tipping others to trade, front-running large transactions, backdating stock options, trading through proxies, selective disclosure to certain investors, and using complex financial instruments like derivatives. Misuse of inside information is discouraged because it allows insiders to take unfair advantage, creates a conflict of interest by prioritizing personal gain over the company's best interests, and damages market reputation, discouraging investment⁵.

In 1996, Rakesh Agrawal,⁶ , who's an managing director of ABS diligence Ltd., vended significant portion of his⁷ shares before the public advertisement of a deal with AG Bayer, leading SEBI to charge him of bigwig trading and direct him to deposit the quantum of Rs. 34 lakhs. still, the Securities Appellate Tribunal (SAT) concluded that Agrawal wasn't shamefaced as his conduct were in the stylish interests of the company² and there was no intention to make a profit. SAT also emphasized that to correct an bigwig, it must be proven that the bigwig served unfairly from the¹ trade, and that the motive of the bigwig should be considered in the bigwig trading cases.⁷.

Hindustan Lever Ltd. (HLL)⁸ the company bought shares of Brook Bond Lipton India Ltd. (BBLIL) before the public advertisement of their junction, which leading SEBI to suspect insider trading and issue a Show Beget Notice. SEBI determined that HLL and its directors were insiders³ with previous knowledge of the junction.⁶ The Securities Appellate Tribunal (SAT) upheld SEBI's order, stating that HLL had access to unpublished price sensitive information (UPSI) due to its common operation with BBLIL. This decision led to emendations in the description of unpublished and price sensitive information under SEBI regulations to more address bigwig trading issues. the company bought shares of Brook Bond Lipton India Ltd company, before the public announcement of their merger, which leading SEBI to suspect insider trading and issue a Show Cause Notice. SEBI determined that HLL and its directors were insiders with prior knowledge of the merger. The Securities Appellate Tribunal (SAT) upheld SEBI's order, stating that HLL had access to unpublished price sensitive information (UPSI) due to its common management with BBLIL. This decision led to amendments in the definition of "unpublished" and "price sensitive information" under SEBI regulations to better

⁵ Akshat Mall, Insider Trading in India: A Study of the Emerging Issues of Insider Trading with Reference to Securities Laws, (2023).

⁶ Rakesh Agarwal v. Securities and Exchange Board of India, 2003 (24) DRJ 392 (Delhi High Court)

⁷ . jayant Saxena, Five Landmark Cases on Insider Trading, iPleaders (2021), <https://blog.iplayers.in/five-landmark-cases-insider-trading/>.

⁸ Hindustan Lever Limited v. Securities and Exchange Board of India, (1998) 18 SCL 311 (Securities Appellate Tribunal).

address insider trading issues⁹.

WhatsApp Leak Case¹⁰

The WhatsApp Leak Case involved Shruti Vora from Antique Stock Broking Ltd. circulating price-sensitive information through WhatsApp groups, leading to SEBI's disquisition and forfeitures for several individualities. The indicted argued that similar information sharing, known as Heard on Street (HOS), is common among dealers. SEBI's bigwig trading charges were set away by the Securities Appellate Tribunal (SAT), which concluded that SEBI could not find the origin of the dispatches and⁴ that simply encouraging similar information does not produce someone an bigwig. SAT emphasized that information can only be labelled as UPSI if the philanthropist knew it was UPSI, and SEBI must establish transcendence of probability. Some argue that insider trading can enhance request effectiveness by snappily incorporating private information into stock prices, serving all request actors. still, critics believe that this advantage primarily benefits interposers themselves rather than contributing to overall request effectiveness.

Market Manipulation: Distorting Market Dynamics

Market manipulation thus undermines the integrity of markets because buyers are deceived and artificially influenced in terms of the share prices, which ultimately affects the market. Market manipulation a great threat to financial markets and investors. The practices should be detected and combated with a good understanding of the methods involved. Targeted regulatory measures can be implemented by the authorities in order to maintain market integrity and fairness. This deceptive practice mostly entails spreading false information or rumors that finally confuse investors and disturb the dynamics of markets¹¹. Some of the modes of executing market manipulation includes Pump-and-dump schemes involve artificially inflating a stock's price to attract unsuspecting investors before selling at a higher price. Detection requires monitoring trading activities, with regulatory bodies playing a crucial role. Currency manipulation, carried out by

⁹ Ankoosh Mehta & CAM Disputes Team, Insider Trading: Hindustan Lever Limited v. SEBI, Oct. 25, 2017.

¹⁰ . Lakshya Garg & Vimlendu Agarwal, Hinged Upon Conjectures: A Meticulous Study of WhatsApp Leak Case, CBCL, <https://cbcl.nliu.ac.in/company-law/hinged-upon-conjectures-a-meticulous-study-of-whatsapp-leak-case/>.

¹¹ . *Capital Market and securities law: SEBI's regulatory framework and challenges in ensuring market integrity* (no date) *Legal Service India - Law, Lawyers and Legal Resources*. Available at: <https://www.legalserviceindia.com/legal/legal/legal/article-14949-capital-market-and-securities-law-sebi-s-regulatory-framework-and-challenges-in-ensuring-market-integrity.html> (Accessed: 09 September 2024).

governments or central banks, affects the foreign exchange market as it interferes with trade dynamics and world economic stability. It creates uncertainty, potentially causing trade disputes and conflicts. Order spoofing is placing more than one order in an attempt to manipulate the price of a stock. This form of manipulation fools traders through false demand or supply, causing the price to be influenced artificially.¹²

The Satyam Scandal Of 2018 involved the chairman confessing to account manipulation, causing market uproar. The audit firm was found guilty of conspiracy for relying on fraudulent documents, resulting in inflated profits and false financial statements. Similarly, between 2011 and 2019, IL&FS management manipulated rating agencies for favourable ratings. A forensic audit revealed auditor failures, leading to NFRA declaring Deloitte's appointment illegal due to conflicts of interest. This highlights significant professional misconduct and failure to meet expected standards¹³.

SEBI, in a recent case¹⁴, sent a letter to PNB Housing Finance Company relating to its proposed deal with an American investor and queried why all shareholders were not given equal opportunities and why common shareholders were ignored. The corporate governance issue involved the failure of the company to comply with disclosure obligations under appropriate law provisions, and SEBI called for an explanation by the board of directors on the legal transgression involved. Stock market manipulation can disrupt market dynamics and undermine investor confidence, thereby affecting the overall financial stability of the economy.

Economic and Legal Implications of Securities Fraud

Securities fraud, including insider trading and market manipulation, results in significant financial losses for investors, economic instability, and erosion of market integrity and investor confidence¹⁵. These activities distort market prices, deter foreign investment, and reduce

¹² javidomjim95 (2024) *Types of market manipulation: Understanding the strategies and impact - on thy law, La Libroteca*. Available at: <https://onthylaw.com/securities-fraud/types-of-market-manipulation/?=> (Accessed: 12 September 2024).

¹³ Mahawar, S. (2024) *Satyam scam case, iPleaders*. Available at: <https://blog.iplayers.in/case-study-satyam-fraud-case/> (Accessed: 16 September 2024).

¹⁴ *PNB Housing Finance-Carlyle deal: SEBI raises issue of corporate governance in new letter* (no date) *Moneylife NEWS & VIEWS*. Available at: <https://www.moneylife.in/article/pnb-housing-financecarlyle-deal-sebi-raises-issue-of-corporate-governance-in-new-letter/64506.html> (Accessed: 27 September 2024).

¹⁵ Kumar, V. (2024) *The impact of corporate frauds on the Indian Economy: A Critical Analysis of causes, consequences, and reforms* ", *The Impact of Corporate Frauds on the Indian Economy: A Critical Analysis of*

market liquidity, affecting the broader economy. Legal consequences for perpetrators include fines, disgorgement of profits, and imprisonment, with regulatory bodies like SEBI playing a crucial role in enforcement. The broader economic ramifications of insider trading and market manipulation include reduced market participation, lower capital formation, and slower economic growth. These activities erode investor confidence, hinder resource allocation, and stifle innovation and expansion. Strengthening regulatory frameworks and enhancing transparency are essential to deter fraudulent activities, ensure market integrity, and restore investor trust. By addressing these issues, it is possible to promote healthy market participation and foster a stable and growing economy.¹⁶

REGULATORY FRAMEWORK AND SEBI'S ENFORCEMENT POWERS

The Securities fraud in Indian capital market is regulated by – **the Companies Act, 2013¹⁷** , **The Securities Exchange Board Of India Act, 1992(SEBI Act)¹⁸** which was made with two main purpose (a) safeguarding investors' interests in securities and (b) fostering the development and regulation of the securities market¹⁹. SEBI is responsible for overseeing the issuance and transfer of securities by companies that are listed or seeking to be listed, as per the Companies Act, 2013 (Section 24). It regularly issues orders concerning governance, disclosure, and financial integrity matters of these companies²⁰. **The SEBI (Prohibition of Insider Trading) Regulation, 2015²¹**, provides a comprehensive and robust legal framework to deter insider trading, employing advanced technology and real-time monitoring systems to detect suspicious activities effectively. It imposes stringent penalties for violations, promoting transparency and accountability through timely disclosure of material information. However,

Causes, Consequences, and Reforms ". Available at: <https://www.lawaudience.com/the-impact-of-corporate-frauds-on-the-indian-economy-a-critical-analysis-of-causes-consequences-and-reforms/?form=MG0AV3> (Accessed: 29 September 2024).

¹⁶ saxena, S., Pathania, B. and Shenoy, A. *Effectiveness of insider trading laws in India*, *Indian Journal of Integrated Research in Law*. Available at: <https://ijirl.com/wp-content/uploads/2023/06/EFFECTIVENESS-OF-INSIDER-TRADING-LAWS-IN-INDIA-IDENTIFYING-AND-ADDRESSING-LEGAL-LACUNAE.pdf> (Accessed: 21 September 2024).

¹⁷ Companies Act, No. 18, Acts of Parliament, 2013.

¹⁸ The Securities and Exchange Board of India Act, No. 15 of 1992, India Code (1992).

¹⁹ Mathew, J. (2023) *Explained: How is the stock market regulated in India?*, *The Hindu*. Available at: <https://www.thehindu.com/business/markets/explained-how-is-the-stock-market-regulated-in-india/article66526291.ece?form=MG0AV3> (Accessed: 5 October 2024).

²⁰ Mitchell, Mark L., and Jeffry M. Netter. "The Role of Financial Economics in Securities Fraud Cases: Applications at the Securities and Exchange Commission." *The Business Lawyer*, vol. 49, no. 2, 1994, pp. 545–90. *JSTOR*, <http://www.jstor.org/stable/40687469>. Accessed 10 Oct. 2024.

²¹ The SEBI (Prohibition of Insider Trading) Regulations, 2015, Gazette of India, Part III, Section 4 (Jan. 15, 2015).

challenges remain, including enforcement difficulties due to legal ambiguities and evidentiary hurdles, technological impediments that can hinder effective monitoring, and resource constraints in terms of staffing and expertise, which affect the effectiveness of enforcement efforts. The primary goal of SEBI's establishment is to protect the interests of investors in the securities market and address related or incidental matters.²²

Detection of insider trading and market manipulation cases followed by prosecution in India poses serious challenges, such as evidentiary hurdles which demand direct evidence, problematic implementation of criminal liability provisions, and judicial delays prolonging the resolution of cases. Even the advanced systems of surveillance are hindered by resource constraints related to personnel and expertise for more potent enforcement by SEBI. Inconsistencies in enforcement arise from legal ambiguities. Addressing these challenges is crucial for enhancing SEBI's regulatory effectiveness and ensuring a fair and transparent market environment. SEBI (Fraudulent and Unfair Trade Practices) Regulations, 2003: Aims to combat fraudulent practices like price manipulation and spreading false information, allowing SEBI to investigate and impose penalties. Mechanisms under SEBI to curtail market manipulation and instill investor confidence include banning fraudulent practices like front running and insider trading, high surveillance through advanced technology to detect suspicious transactions, with strict enforcement along with heavy penalties, international cooperation with international regulatory bodies, education of investors, company guidelines for handling unpublished price-sensitive information (UPSI), and verification of market rumors by listed companies. Together, these steps provide a transparent and trustworthy market environment, which in turn strengthens investors' confidence and keeps the securities market healthy.

An even more daunting challenge for India's securities litigation is its labyrinth of regulations by SEBI, RBI, and the Ministry of Corporate Affairs; delayed litigation; and enforcement challenges. Inadequate investor awareness, market manipulation, insider trading, and cross-border disputes add to the adversity, requiring strong evidence and coordination. The evolving landscape of class action suits and technological changes also necessitates

²² Sunil Kumar D, *Capital Market Reforms - Indian Economy Notes*, prepp (Oct. 8, 2024), <https://prepp.in/news/e-492-capital-market-reforms-indian-economy-notes>.

continuous adaptation by regulatory bodies and legal professionals. Overcoming these challenges will help build an environment in Indian securities litigation that is transparent, efficient, and investor-friendly.²³

On January 15 of 2015, the Securities and Exchange Board of India (SEBI) has adopted the SEBI (Prohibition of Insider Trading) Regulations, 2015. The primary ideal of this regulation is to assist the abuse of deals that have undisclosed price-sensitive information. thus, it's important whether the person making business opinions owns similar information, and not the person who owns the power of the operation and owns similar information. Penalties on the following charges for insider trading Interposers violating the 2015 regulations attract a penalty of Rs. 25 crores or three times the amount of profit gained from insider trading, whichever is advanced, plus imprisonment for more than to ten times or a fine amount which is more than 25 crores, or both, section 15G and 24 of the SEBI Act. According to section 11(c)(6) of the SEBI act, any person who denies complying with any SEBI inquiry into insider trading without any kind of defense is liable for being imprisoned for a term of over to one time, forfeiture of over to Rs. 1 crore, or both, and a further forfeiture of over to Rs. 5 lakhs for each day of such similar non-compliance. SEBI is also vested under section 11 (4) (b) of the SEBI Act with the authority to issue instructions to similar inter-posers not to deal in the concerned securities in any particular manner, to enjoin him from disposing of the concerned securities, to declare the concerned sale(s) of securities null and void, and to restrain the insider from communicating or counselling anyone to deal in securities.²⁴. Still, 2013, he or she may be doomed to five times in captivity, If an insider violates section 195 of the Companies Act. Since the introduction of SEBI's Prohibition of Insider Trading Regulations in 2015, various amendments have been made, including THE SEBI (PROHIBITION OF INSIDER TRADING) (SECOND AMENDMENT) REGULATIONS, 2024²⁵. These amendments, effective 23 September 2024, reduce the cool-off period for trading plans from 6 months to 120 days and eliminate the requirement of a 12-month trading plan. They have specified trade parameters; introduced the concept of price limits; and provided for deviations

²³ Khurana And Khurana, *SEBI And The Capital Market Regulations: A Critique*, (Mar. 21, 2022), <https://www.mondaq.com/india/securities/1174060/sebi-and-the-capital-market-regulations-a-critique>.

²⁴ Staff, E. (2024) *Understanding securities fraud: Legal implications and consequences - statute online*, *The Insurance Universe*. Available at: <https://statuteonline.com/securities-fraud/?form=MG0AV3> (Accessed: 17 October 2024).

²⁵ The SEBI (Prohibition of Insider Trading) (Second Amendment) Regulations, 2024, Gazette of India, Part III, Section 4 (June 25, 2024).

for specific exceptional circumstances. Compliance officers have to approve or reject the trading plans within two trading days and report them to the respective stock exchanges. Corporate actions are allowed and contra trades are disallowed with a six months block requirement²⁶.

The Reserve Bank of India (RBI) issued the Prevention of Market Abuse Directions, 2019²⁷, to regulate financial markets. These guidelines apply to persons dealing in securities, money markets, foreign exchange, derivatives, etc., excluding banks and the central government. The directions aim to prevent market and benchmark manipulation and the misuse of non-public price-sensitive information and price-sensitive customer information, prohibiting their use for personal or others' material benefit. This ensures fair transactions without adversely affecting customers' outcomes.²⁸

ASSESSMENT ON REGULATORY MECHANISM

The SEBI (Prohibition of Insider Trading) Regulation, 2015, provides a strong legal framework to deter insider trading, using advanced technology and real-time monitoring. It promotes transparency and imposes stringent penalties. However, challenges include enforcement difficulties due to legal ambiguities, evidentiary hurdles, and resource constraints in staffing and expertise, which affect effectiveness. Technological limitations hinder detection, and judicial delays prolong case resolution. Addressing these challenges is crucial to enhance SEBI's regulatory effectiveness and ensure a fair and transparent market environment.²⁹

In the United States, the Securities and Exchange Commission regulates the securities market and absolutely bans insider trading. Corporate governance is supposed to be rigorous under the Sarbanes-Oxley Act and antidotes to manipulations by the Dodd-Frank Act. Data protection, however, is regulated by an incoherent patchwork of state laws due to the lack of a federal law.

²⁶ Banerjee, S. (2021) *Framework for protection of investors in securities market*, *iPleaders*. Available at: <https://blog.ipleaders.in/framework-for-protection-of-investors-in-securities-market/> (Accessed: 27 October 2024).

²⁷ Reserve Bank of India (Prevention of Market Abuse) Directions, 2019, Gazette of India, Part III, Section 4 (Mar. 15, 2019).

²⁸ Leo (2023) *RBI issues directions on market manipulation*, *Law.asia*. Available at: <https://law.asia/rbi-issues-directions-market-manipulation/> (Accessed: 03 November 2024).

²⁹ prakash, suriya (no date) 'INSIDER TRADING REGULATIONS IN INDIA: A CRITICAL EVALUATION OF SEBI (PROHIBITION OF INSIDER TRADING) REGULATION, 2015', *Indian Journal of Integrated Research in Law*, 4(1), pp. 510–518.

In the United Kingdom, the Financial Conduct Authority is a person who administers and enforces the laws concerning insider trading in the securities market. UK Corporate Governance Code sets very good standards for governance and corporate governance, although the FSMA handles issues related to market manipulation. In the EU, ESMA oversees and applies EU-wide measures for insider trading in the securities market. The EU has corporate governance directives, whereas the Market Abuse Regulation relates to market manipulation. The general Data Protection Regulation applies across the whole of the EU in relation to data protection.³⁰

While SEBI, SEC, FCA and ESMA all regulate securities markets, their mandates and powers are different from one another. The UK and EU have relatively more codified standards in corporate governance as compared to India. The EU has corporate governance directives, while the Market Abuse Regulation has tackled market manipulation. The general data protection regulation that applies across the EU is extremely comprehensive on data protection issues.

The Harshad Mehta case³¹, known as the 1992 Indian Stock Market Scam, involved manipulation of stock prices using fake bank receipts, resulting in a market bubble and significant investor losses. Stockbroker Harshad Mehta exploited loopholes in the Indian banking system, using fake bank receipts and ready forward deals to cheat. It collapsed in April 1992, wiping out as much as 40 percent of the market value or equivalent to about ₹1,000 billion³². This led to a massive change in the form of reforms such as establishing the National Stock Exchange (NSE) for transparent trading, online trading for the risk of fraud, and enhanced SEBI regulations³³. Harshad Mehta was sentenced for five years of imprisonment along with a fine of ₹25,000. The scandal translated to loss of public trust in the stock market, increased demands for stronger corporate governance and, ultimately, enhanced transparency; increased governmental regulatory oversight; and regulatory reforms of the Indian financial sector³⁴. This scandal exposed financial system weaknesses and led to major regulatory reforms

³⁰ *Bflr35-3 1..176*, (May 26, 2021), https://bflr.ca/wp-content/uploads/2021/11/BFLR35-3_BR03.pdf.

³¹ *Harshad S. Mehta v. Central Bureau of Investigation*, 1992 (24) DRJ 392 (Delhi High Court).

³² Harjyot Singh, *Scam 1992: Harshad Mehta Scam Story*, Pocketful (Oct. 8, 2024), <https://www.pocketful.in/blog/scam-1992-harshad-mehta-scam-story/>

³³ Sneha Mahawar, *All about the Harshad Mehta Scam - iPleaders*, IPleaders (May 25, 2022), <https://blog.ipleaders.in/all-about-the-harshad-mehta-scam/>.

³⁴ Taxguru In, *Harshad Mehta Scam: Analysis of India's Infamous Financial Fraud*, (June 22, 2023) <https://taxguru.in/finance/harshad-mehta-scam-analysis-indias-infamous-financial-fraud.html>.

by SEBI³⁵. In response, SEBI increased transparency in stock trading through stricter disclosure requirements, strengthened insider trading regulations, emphasized corporate governance with mandatory codes of conduct, improved surveillance and monitoring to detect market manipulation, and imposed penalties and legal action against those involved³⁶. These measures aimed to restore investor trust and ensure a fair and transparent market, leading to significant regulatory changes to prevent future incidents.³⁷

Policy Recommendations and Legal Reforms

SEBI has significantly impacted the development of the Indian capital market through extensive reforms, enhanced transparency, and increased investor confidence. Since its establishment, SEBI has introduced crucial reforms that have transformed the economy, improved access to international markets, and protected investor interests. These changes include a more robust surveillance and monitoring system for stock exchanges. By ensuring greater transparency and boosting investor confidence, SEBI has played a vital role in shaping the modern landscape of India's capital market. SEBI's influence on the Indian capital market is marked by its rigorous regulations for disclosure, corporate governance, and market practices, ensuring fair and transparent operations. By reshaping regulatory frameworks to align with international standards, SEBI has enhanced the structure and efficiency of stock exchanges, making them more accessible and reliable for investors. SEBI's comprehensive regulatory reforms and emphasis on transparency and investor protection have been fundamental in developing and maturing India's capital market. In terms of IPOs and corporate governance, SEBI has significantly shaped the landscape with stringent disclosure requirements, eligibility criteria, and fair pricing mechanisms, making the IPO process more complex but vital for corporate finance. Studies by Sabarinathan (2010) and Manjari Sharma (2013) highlight SEBI's critical role in the evolution and regulation of the Indian securities market and IPO issuer profiles.³⁸

³⁵ *Decoding The Deception: A Case Study Of The Harshad Mehta Scam And Its Repercussions In The Indian Stock Market* » *Lawful Legal*, (Jan. 14, 2024), <https://lawfullegal.in/decoding-the-deception-a-case-study-of-the-harshad-mehta-scam-and-its-repercussions-in-the-indian-stock-market/>.

³⁶ Nishant Kumar, *Harshad Mehta scam: 10 key points of the scam that jolted India in 1992*, (Oct. 9, 2020), <https://www.moneycontrol.com/news/business/markets/harshad-mehta-scam-10-key-points-of-the-scam-that-jolted-india-in-1992-5939931.html>

³⁷ Kandukuri, R. (2023) *An analysis of stockbroking frauds and regulatory action in India*, *journal of financial crime*. Available at: <https://www.emerald.com/insight/publication/issn/1359-0790> (Accessed: 14 November 2024).

³⁸ Srivastava, P.K. (2021) 'SEBI' Regulatory Role In Strengthening Capital Market In India', *webology*, 18(6), pp. 9466–9487.

The general regulatory impact of the Securities and Exchange Board of India (SEBI) on the Indian financial market can be understood through various research studies that have explored different aspects of its influence. Capital Market Reforms and Investor Protection: The establishment of SEBI has significantly transformed the Indian economy, especially the financial system. This transformation resulted in higher transparency, easy access to international markets, and greater protection of investors' interests. SEBI played a pivotal role in changing the structure and functioning of stock exchanges through the introduction of proper surveillance and monitoring systems. Corporate Governance³⁹ Enhancement: SEBI's continuous updating of guidelines, rules, and regulations has played a crucial role in improving corporate governance standards in India.

This has helped raise public trust in the market and led to more accountable boards. One of the Landmark stock Manipulation case known as The Ketan Parekh case which is filed against the stockbroker named Ketan Parekh who done the stock manipulation. SEBI's probe revealed channels through which banking funds were misused and the share prices were manipulated. This led to mass-market regulation reform⁴⁰.

SEBI regulates and develops the securities market through several critical functions: formulating regulations to ensure transparency and fairness safeguarding investor interests by curbing malpractices promoting market development and participation and overseeing market intermediaries to ensure regulatory compliance. SEBI employs advanced surveillance systems, investigations, and enforcement actions to curb insider trading, while also conducting awareness programs and investor education initiatives. Listed companies must establish codes of conduct and implement internal controls, while market intermediaries must adhere to SEBI regulations. Strict enforcement of insider trading laws enhances market confidence, reduces volatility, and fosters long-term investment. Best practices for traders and investors include staying informed about regulations, engaging in ethical trading, and using technology to validate market strategies.⁴¹

³⁹ *The Indian Landscape of Insider Trading Understanding Regulations, Managing Risks, and Upholding Ethical Governance for Board Members*, (Oct. 28, 2024), <https://www.legal500.com/developments/thought-leadership/the-indian-landscape-of-insider-trading-understanding-regulations-managing-risks-and-upholding-ethical-governance-for-board-members/>.

⁴⁰ *Ketan Parekh v. Securities and Exchange Board of India*, 2006 (3) Bom CR 289 (Securities Appellate Tribunal).

⁴¹ 'Insider Trading Laws: Protections Against Market Manipulation' (2024b) <https://alphashots.ai/>, 26 June. Available at: <https://blog.alphashots.ai/the-role-of-regulatory-bodies-in-the-indian-stock-market/insider-trading-laws-protections-against-market-manipulation/> (Accessed: 23 November 2024).

SEBI's recent regulatory enforcement faces a lot of challenges in adapting to new technological advancements and balancing investor protection with market development. Anticipated reforms aim to enhance regulatory mechanisms to keep pace with global financial trends and innovations, including updating policies for new financial instruments and digital platforms. SEBI's evolving role involves embracing digital technologies for market surveillance and adapting to global trends to keep Indian markets competitive, requiring continuous evolution to balance market development and investor protection.

CONCLUSION

The exploration of insider trading and market manipulation in Indian capital markets highlights significant impacts on market integrity, investor confidence, and economic stability. On a larger scale, they weaken economic growth due to deterred investment, decreased consumer confidence, and inefficiencies. The additional costs of regulation to curb these practices add to the economic costs. These activities adversely affect both the stability of the market and the nation's GDP growth. High-profile cases like the Harshad Mehta scam stands as an eye opener which emphasize the need for robust regulatory frameworks and vigilant enforcement by SEBI. Despite progress with regulations like the SEBI (Prohibition of Insider Trading) Regulations, 2015, challenges in detection and compliance persist. The evolving landscape of market manipulation calls for adaptive approaches, advanced surveillance technologies, global collaborations, and enhanced public awareness. Future research should assess regulation effectiveness, integrate AI, and address ethical challenges. Ensuring market integrity and investor trust requires rigorous enforcement and continuous innovation, aiming for sustainable growth and stability.