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# **INSIDER TRADING REGULATIONS IN INDIA: A CRITICAL EVALUATION OF SEBI (PROHIBITION OF INSIDER TRADING) REGULATION, 2015**

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Suraj Prakash, The NorthCap University (NCU), Gurugram

## **ABSTRACT**

Insider trading, a practice wherein individuals exploit non-public information to gain advantage in securities trading, poses significant challenges to market integrity and investor confidence. India, like many jurisdictions, has implemented regulatory frameworks to curb such practices, with the Securities and Exchange Board of India (SEBI) playing a pivotal role. This paper critically evaluates the effectiveness of SEBI's regulatory measures, focusing on the SEBI (Prohibition of Insider Trading) Regulation, 2015. The study begins by providing an overview of the regulatory landscape surrounding insider trading in India, highlighting the historical development and the specific provisions outlined in the SEBI regulations. Through a thorough examination of the regulatory framework and key provisions, this paper identifies strengths and weaknesses in the current system. While SEBI's regulations aim to deter insider trading and ensure fairness and transparency in the market, challenges persist in enforcement and implementation.

By analyzing notable insider trading cases and industry practices, this study sheds light on the complexities involved in regulating insider trading effectively. Despite SEBI's efforts to enhance surveillance and enforcement mechanisms, instances of non-compliance and circumvention of regulations persist, raising questions about the adequacy of existing measures. Through a critical evaluation, this paper identifies several areas for improvement, including enhancing the scope of regulations, strengthening enforcement mechanisms, and promoting greater transparency and accountability among market participants. Recommendations are provided to address these shortcomings and bolster the effectiveness of insider trading regulations in India. The findings of this study have important implications for policymakers, regulators, and market participants, emphasizing the need for continuous monitoring and adaptation of regulatory frameworks to address

evolving challenges in the securities market. By addressing the gaps and shortcomings in existing regulations, India can foster a more robust and resilient market environment that upholds the principles of fairness, integrity, and investor protection.

**Keywords:** Insider trading, SEBI, Securities regulation, Market integrity, Enforcement, Compliance, Investor protection, Transparency, Accountability, Market surveillance.

## Introduction

Insider trading, a practice entailing the use of undisclosed, material information for trading in securities, has long been a concern within financial markets worldwide, including India. It undermines market integrity, erodes investor confidence, and poses significant risks to fair and transparent market operation.<sup>1</sup> Recognizing these threats, regulatory bodies have endeavoured to combat insider trading through the implementation of robust legal frameworks. In India, the Securities and Exchange Board of India (SEBI) has been at the forefront of such efforts, enacting stringent regulations to prevent and penalize insider trading activities.<sup>2</sup>

The genesis of insider trading regulations in India can be traced back to the early 1990s when SEBI was empowered to regulate the securities market. Over the years, SEBI has introduced several iterations of insider trading regulations, each aimed at refining and strengthening the regulatory framework to address emerging challenges and market dynamics. The culmination of these efforts led to the enactment of the SEBI (Prohibition of Insider Trading) Regulation, 2015, which serves as the primary legislative instrument governing insider trading activities in India. The SEBI (Prohibition of Insider Trading) Regulation, 2015, represents a comprehensive and stringent framework designed to curb insider trading practices and safeguard the integrity of the Indian securities market. The regulation prohibits insiders from trading in securities based on unpublished price-sensitive information, thereby ensuring a level playing field for all market participants. It imposes strict disclosure requirements on insiders, mandating timely and accurate disclosure of trades and shareholding patterns to promote transparency and investor confidence. Furthermore, the regulation establishes a robust framework for monitoring and enforcement, empowering SEBI with extensive investigative and punitive powers to detect, investigate, and penalize instances of insider trading effectively. Provisions such as the

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<sup>1</sup> Misra, M. (2011). Insider trading: indian perspective on prosecution of insiders. *Journal of Financial Crime*, 18(2), 162-168. <https://doi.org/10.1108/13590791111127732>

<sup>2</sup> Manchikatla, A. and Acharya, R. (2017). Insider trading in india – regulatory enforcement. *Journal of Financial Crime*, 24(1), 48-55. <https://doi.org/10.1108/jfc-12-2015-0075>

establishment of trading windows and blackout periods aim to prevent unauthorized trading by insiders during sensitive periods, thus mitigating the risk of market manipulation and unfair trading practices.

The SEBI (Prohibition of Insider Trading) Regulation, 2015, also introduces stringent penalties for violations, including monetary fines, disgorgement of profits, and debarment from trading in securities. By imposing such penalties, the regulation seeks to deter insider trading activities and ensure compliance with the prescribed norms, thereby fostering a culture of ethical conduct and integrity in the Indian securities market. In light of the significant role played by insider trading regulations in safeguarding market integrity and investor interests, it becomes imperative to critically evaluate the efficacy of the SEBI (Prohibition of Insider Trading) Regulation, 2015.<sup>3</sup> This study seeks to undertake a comprehensive analysis of the regulation, examining its strengths, weaknesses, enforcement mechanisms, and impact on market participants. By identifying areas for improvement and offering recommendations, this research aims to contribute to the ongoing discourse on insider trading regulation in India and enhance the effectiveness of the regulatory framework in maintaining a fair, transparent, and efficient securities market.

### **Regulatory Framework and Key Provisions**

Insider trading regulation in India falls under the purview of the Securities and Exchange Board of India (SEBI), the apex regulatory body responsible for overseeing the securities market. SEBI's mandate encompasses the formulation and enforcement of regulations aimed at maintaining market integrity, protecting investor interests, and ensuring fair and transparent market conduct.<sup>4</sup> Within this regulatory framework, SEBI plays a central role in preventing and deterring insider trading activities through the enactment and enforcement of stringent regulatory measures.

The SEBI (Prohibition of Insider Trading) Regulation, 2015, represents a cornerstone of SEBI's regulatory framework, providing a comprehensive and robust framework for regulating insider trading activities in India. The regulation encompasses a wide range of provisions aimed at preventing insider trading, promoting transparency, and enhancing market integrity.

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<sup>3</sup> Ibid

<sup>4</sup> Sabarinathan, G. (2010). sebi's regulation of the indian securities market: a critical review of the major developments. *Vikalpa the Journal for Decision Makers*, 35(4), 13-26.  
<https://doi.org/10.1177/0256090920100402>

**Key provisions of the SEBI (Prohibition of Insider Trading) Regulation, 2015, include:**

**Definition of Insider Trading:** The regulation defines insider trading and delineates the scope of prohibited activities, encompassing both trading and communication of unpublished price-sensitive information by insiders.

**Prohibition on Insider Trading:** The regulation prohibits insiders from trading in securities based on unpublished price-sensitive information, thereby preventing unfair advantages and ensuring a level playing field for all market participants.

**Disclosure Requirements:** Insiders are required to disclose their trading activity and shareholding positions to the designated authorities within specified timelines, ensuring transparency and accountability in their dealings.

**Trading Window and Blackout Periods:** The regulation mandates the establishment of trading windows, during which insiders are permitted to trade in securities, subject to certain restrictions. Outside these trading windows, insiders are prohibited from trading to prevent unauthorized transactions based on undisclosed information.

**Insider Trading Code of Conduct:** The regulation imposes an insider trading code of conduct on listed companies and market intermediaries, outlining ethical standards and best practices to prevent insider trading and ensure compliance with regulatory norms.<sup>5</sup>

The significance of these provisions lies in their collective contribution to fostering a fair, transparent, and efficient securities market in India. By prohibiting insider trading and imposing strict disclosure requirements, the regulation seeks to enhance market integrity and investor confidence. The establishment of trading windows and blackout periods aims to prevent market manipulation and ensure a level playing field for all market participants. Additionally, the insider trading code of conduct promotes ethical conduct and accountability among insiders, thereby fostering a culture of compliance and integrity in the securities market. The SEBI (Prohibition of Insider Trading) Regulation, 2015, represents a comprehensive and robust regulatory framework designed to prevent insider trading and uphold market integrity in India. By outlining key provisions and explaining their significance, this chapter provides a foundational understanding of the regulatory framework governing insider trading activities in

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<sup>5</sup> (2016). The effect of enforcement intensity on illegal insider trading volume: the case of taiwan. investment management and financial innovations, 13(2), 141-148. [https://doi.org/10.21511/imfi.13\(2-1\).2016.02](https://doi.org/10.21511/imfi.13(2-1).2016.02)

the country.<sup>6</sup>

### **Critical Evaluation**

The regulatory framework established by the Securities and Exchange Board of India (SEBI) for insider trading, as outlined in the SEBI (Prohibition of Insider Trading) Regulation, 2015, marks a significant step towards ensuring market integrity and investor protection. However, a critical evaluation reveals both strengths and limitations in the effectiveness of SEBI's regulatory measures.<sup>7</sup>

### **Effectiveness of SEBI Regulation:**

SEBI's regulatory framework has succeeded in creating awareness about insider trading and instilling a culture of compliance among market participants. The prohibition on insider trading and the imposition of stringent penalties for violations have acted as deterrents, discouraging illicit trading practices. Moreover, the disclosure requirements and the establishment of trading windows have contributed to greater transparency and accountability in the securities market.<sup>8</sup>

Despite these positive outcomes, challenges persist in enforcing insider trading regulations effectively. One significant challenge lies in the detection and investigation of insider trading activities. Insider trading often involves sophisticated methods of concealing illicit transactions, making it difficult for regulatory authorities to detect and prosecute offenders. Moreover, the lack of timely and accurate information poses challenges in identifying instances of insider trading, especially in cases where transactions occur through opaque structures or offshore accounts.

Another challenge relates to the enforcement of penalties and sanctions against perpetrators of insider trading. While SEBI has the authority to impose fines, disgorgement of profits, and debarment from trading, the effectiveness of these penalties in deterring insider trading remains questionable. In many cases, the penalties imposed may not be commensurate with the profits gained from insider trading, leading to concerns about the adequacy of deterrence mechanisms.

Furthermore, regulatory gaps and ambiguities in the SEBI (Prohibition of Insider Trading) Regulation, 2015, pose challenges to its effective implementation. The regulation lacks clarity

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<sup>6</sup> (2017). Insider trading in india – regulatory enforcement. *journal of financial crime*, 24(1), 48-55.  
<https://doi.org/10.1108/jfc-12-2015-0075>

<sup>7</sup> Uzma, S. H. (2023). International financial reporting standards convergence in the indian context: insights from practitioners. *Journal of Public Affairs*, 23(3). <https://doi.org/10.1002/pa.2861>

<sup>8</sup> (2021). Intelligent system for the detection of insider trading in indian stock market..  
<https://doi.org/10.4108/eai.7-12-2021.2314574>

on certain aspects, such as the definition of 'unpublished price-sensitive information' and the scope of 'connected persons,' leading to inconsistencies in interpretation and enforcement. Moreover, the regulation does not address emerging issues such as insider trading through electronic platforms or social media, highlighting the need for periodic review and updating of regulatory frameworks to address evolving market dynamics.

**Areas for Improvement:**

To address these challenges and enhance the effectiveness of insider trading regulations, several measures can be considered. Firstly, there is a need for greater collaboration and information-sharing among regulatory authorities, exchanges, and market intermediaries to improve surveillance and detection capabilities. Leveraging advanced technologies such as data analytics and artificial intelligence can enhance the ability to identify suspicious trading patterns and unusual market activities.

Secondly, SEBI should focus on strengthening enforcement mechanisms and enhancing the severity of penalties for insider trading violations. This includes imposing disgorgement of profits that exceed the gains from insider trading, as well as exploring alternative sanctions such as criminal prosecution for egregious offenses. Additionally, measures should be taken to streamline the adjudication process and expedite the resolution of insider trading cases to ensure swift justice.<sup>9</sup>

Finally, there is a pressing need to address regulatory gaps and ambiguities in the existing framework through periodic reviews and amendments. SEBI should conduct a comprehensive review of the SEBI (Prohibition of Insider Trading) Regulation, 2015, to clarify ambiguous provisions, incorporate emerging trends, and align with international best practices. Moreover, efforts should be made to enhance investor education and awareness about insider trading regulations to empower investors to make informed decisions and contribute to market integrity. While SEBI's regulatory framework for insider trading represents a significant milestone in safeguarding market integrity, critical evaluation reveals areas for improvement. By addressing enforcement challenges, regulatory gaps, and ambiguities, SEBI can strengthen its regulatory regime and ensure a fair, transparent, and efficient securities market in India.

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<sup>9</sup> Uzma, S. H. (2023). International financial reporting standards convergence in the indian context: insights from practitioners. *Journal of Public Affairs*, 23(3). <https://doi.org/10.1002/pa.2861>

## **Case Studies**

The case of *Shruti Vora v Securities and Exchange Board of India* presents a significant analysis of India's insider trading regime, particularly regarding the interpretation of the knowledge requirement in determining liability under the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015. The decision rendered by the Securities Appellate Tribunal (SAT) in this case has far-reaching implications for the enforcement and interpretation of insider trading regulations in India.

In the *Shruti Vora* case, the SAT deliberated on whether the circulation of a "forwarded as received" message on a WhatsApp group, containing financial results of a company before they were disclosed publicly, constituted unpublished price-sensitive information (UPSI) under the PIT Regulations. The central legal question revolved around the element of knowledge and whether the accused possessed the requisite knowledge that the information in question was UPSI.

The case comment begins by providing context on India's insider trading regime and the historical development of laws governing insider trading. It highlights the evolution of insider trading regulations in India, emphasizing the strict stance adopted by the Securities and Exchange Board of India (SEBI) in combating insider trading practices.

The analysis of the *Shruti Vora* case delves into the implications of the SAT's judgment on the interpretation of the knowledge requirement under the PIT Regulations. It critiques the SAT's approach, highlighting several flaws and inconsistencies in its reasoning. Notably, the SAT's failure to reference precedents and the ambiguous connection made between general information and the requirement of knowledge are scrutinized.

Furthermore, the case study examines the broader implications of the SAT's decision on India's insider trading laws and regulatory framework. It argues for a reconsideration of the legislative intent of the PIT Regulations, particularly regarding the inclusion of a knowledge requirement and the establishment of an innocent tippee defense. The analysis underscores the need for reform to align India's insider trading regime with international best practices and address gaps in the existing regulatory framework. The *Shruti Vora* case serves as a critical examination of India's insider trading regime, shedding light on the complexities and challenges in enforcing insider trading regulations. By analyzing the implications of the SAT's decision, this case study contributes to the ongoing discourse on insider trading regulation in India and advocates for

reforms to strengthen market integrity and investor protection.<sup>10</sup>

## **Conclusion**

The examination of India's insider trading regulations, as illustrated through case studies and critical analyses, reveals several key findings and insights regarding the effectiveness and challenges of the regulatory framework. This conclusion synthesizes the main takeaways from the preceding chapters and offers recommendations for enhancing insider trading regulations in India.

## **Key Findings and Insights:**

**Regulatory Framework:** India possesses one of the strictest insider trading regimes globally, with the Securities and Exchange Board of India (SEBI) playing a pivotal role in governing the securities market. The SEBI (Prohibition of Insider Trading) Regulation, 2015, represents a comprehensive framework aimed at preventing insider trading and promoting market integrity.

**Challenges in Enforcement:** Despite the robust regulatory framework, challenges persist in effectively enforcing insider trading regulations. Detection and investigation of insider trading activities remain arduous tasks, exacerbated by the complexity of financial markets and the sophistication of illicit trading practices.

**Ambiguities and Gaps:** Ambiguities in the interpretation of key provisions, such as the knowledge requirement, pose challenges to consistent enforcement of insider trading regulations. Furthermore, regulatory gaps, including the absence of an innocent tippee defense, necessitate a review and refinement of the existing regulatory framework.

**Implications of Case Studies:** Case studies, such as the *Shruti Vora v Securities and Exchange Board of India*, provide valuable insights into the interpretation and application of insider trading regulations in India. These cases underscore the need for clarity, consistency, and adherence to legislative intent in adjudicating insider trading disputes.

## **Recommendations:**

**Enhance Enforcement Mechanisms:** Strengthen surveillance and investigative capabilities to detect and deter insider trading activities effectively. This may involve leveraging advanced technologies, enhancing coordination among regulatory authorities, and increasing resources

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<sup>10</sup> Bhandari, A. (2022). *Shruti vora securities and exchange board of india: analysing the india's insider trading regime*. *Jus Corpus Law Journal*, 2(4), 522-528.



allocated to enforcement efforts.

**Clarify Regulatory Provisions:** Address ambiguities in insider trading regulations by clarifying key provisions, such as the knowledge requirement and the scope of permissible defenses. Regular reviews and updates to the regulatory framework are essential to ensure alignment with market dynamics and international best practices.

**Promote Investor Education:** Enhance investor awareness and education initiatives to empower market participants to recognize and report suspicious trading activities. Educating investors about their rights and responsibilities under insider trading regulations can contribute to a more vigilant and informed investor community.

**Foster Collaboration:** Foster collaboration among regulatory authorities, market participants, and industry stakeholders to strengthen market surveillance, share best practices, and address emerging challenges collectively. Public-private partnerships can enhance the effectiveness of regulatory efforts and promote a culture of compliance.

In conclusion, the regulation of insider trading in India is a complex and multifaceted endeavor that requires continuous vigilance, adaptation, and collaboration among stakeholders. While India's insider trading regulations have made significant strides in safeguarding market integrity, ongoing efforts are needed to address enforcement challenges, clarify regulatory ambiguities, and enhance investor confidence. By implementing the recommendations outlined above, India can strengthen its regulatory framework and uphold the highest standards of market integrity and investor protection in the global securities market landscape.