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## THE ROLE OF ARTIFICIAL INTELLIGENCE IN BALANCING LAW AND PROFIT

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### ABSTRACT

In the reference of insider trading, the paper *The Role of Artificial Intelligence in Balancing Law and Profit* investigate the meeting point of legal framework and technological growth. It rediscovers the details of the case brought by the “*Securities and Exchange Board of India (SEBI) against Abhijit Rajan*”, with a stressed on the ethical and legal effects of insider trading. To catch differences in trading activity, the study looks at how Artificial Intelligence (AI) can retouch regulatory monitor through data analysis, predictive modelling and self-driven decision-making skills. It talks about how definitions and legal explanations of insider trading are changing and how difficult it is to prove the offence because object and profit motive are complicated notions. The use of AI in regulatory procedure is encouraged as a way to guarantee openness, safeguard investors' interests, and pursue legitimate financial conduct. The study also discusses how India's insider trading regulations have been impacted by crucial court rulings, stressed on the need for exact definitions and striking a balance between market capability and regulatory enforcement. To preserve the unanimity of financial markets and well adjust the international character of securities trading, the article stressed on the necessity of incorporating cutting-edge technology such as artificial intelligence (AI). This study forwards the discourse about how legal frameworks can be strengthened by technological growth to reduce unethical business practices and enhance investor confidence.

**Keywords:** AI, SEBI, Investors, Regulatory, Financial Conduct

## INTRODUCTION

Insider trading is legally and ethically wrong because it allows an insider who has access to “exclusive information about a company to profit (or prevent losses)” by using that information to buy or sell the company’s stock with respect to uninformed members of the general public. The above statement is so commonly said that it is essentially an unnecessary restatement of this.<sup>1</sup> Insider trading, as it is usually known, is the exercise of trading securities rooted on non-public knowledge.<sup>2</sup> The apparent need to buy or sell securities ahead is the main characteristics of the behavior that can be sorted as in the practice of insider trading, a “trader has access to information regarding the value of a security being traded” (the “insider” information) that is not generally accessible to the public or all participants in the market prior to the public’s learning about it..<sup>3</sup> Insider trading is another term for the “buying and selling of company shares by any person who has reach to classified information” of which the public or shareholders are stranger and which can have a crucial influence on the price of the securities.<sup>4</sup> The act of directly or “indirectly buying, selling, subscribing to, or consenting to subscribe for shares of a company by key management” personal or directors who have reach to price-sensitive “information that has not been made public, known as Insider Trading.”

It was described by law and economics scholar Henry G. Manne did this as follows:

*“The exercise by corporate agents of purchasing or disposing of their company's securities without disclosing to the public material information of which they have knowledge, but which has no effect on the price of the security, is known as insider trading.”*<sup>5</sup>

It says in the New Oxford Companion to Law:

*“When anyone has distinct knowledge that is not commonly known, they may inappropriately unfold it or use it to their own benefit when transacting in financial securities in the open*

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<sup>1</sup> Arya Kuttan & Abhirami, *Insider Trading Laws in India - Pertinence and Problems*, The Law Brigade (Publishing) Group, 4 (2018)

<sup>2</sup> Dr. Jinesh Panchali. “Insider Trading Issues.” p. 48, Financial Technologies Knowledge Management Company Limited, 2011.

<sup>3</sup> Bose, *Insider trading: perspectives and cases*, Last Accessed on December 20 2025. [https://library.krea.edu.in/cgi-bin/koha/opac-detail.pl?biblionumber=96340&shelfbrowse\\_itemnumber=93253](https://library.krea.edu.in/cgi-bin/koha/opac-detail.pl?biblionumber=96340&shelfbrowse_itemnumber=93253) .

<sup>4</sup> Staff, *Introduction to SEBI (Prohibition of Insider Trading) Regulations – Vinod Kothari Consultants*, (Feb. 27, 2023), Last Accessed on December 20 2025 <https://vinodkothari.com/2023/02/introduction-to-sebi-prohibition-of-insider-trading-regulations/>

<sup>5</sup> Henry G Manne “Definition of Insider Trading” in Fred S. McChesney (Ed.) the Collected Works of Henry G. Manne.” p. 364, Corporate Law Adviser, vol. 50, 2009,

*market. This is known as insider dealing.*"<sup>6</sup>

Therefore, the main traits of insider trading are as follows:

- insiders have reach to insider information that the public does not have;
- insiders use secret information to their advantage, such as making money or postpone losing it;
- insiders use the information to harm others who do not have it;
- insiders harm shareholders; and
- the inside information must be material.<sup>7</sup>

Concerns from global regulators have increased due to the growing importance of the world's financial markets, where bonds, derivatives and stocks are traded globally. The public and the government became informed of insider trading when they dubious that shareholders and businessmen were making extravagant profits or gains. Insider trading stems from a very basic human natural tendency, namely greed, which makes it an incredibly intricate issue that is nearly impossible to eradicate. It is extremely tedious for anyone with insider information to walk away from a trade based on that knowledge if they ignore it and decide to limit their future profits or losses.

## WHO IS INSIDER & WHAT IS PRICE SENSITIVE INFORMATION

- *"Clause 2(1)(g) of the new regulations defines insider"* as any person who fulfill one of the following two criteria:
- they are a connected person; or
- they possess or have reach to undisclosed price-sensitive information.
- People who have *"access to sensitive, proprietary information about a company"* that is not publicly available are known as insiders. Before the information becomes public,

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<sup>6</sup> Peter. Cane, "The New Oxford Companion to Law" Oxford University Press, vol. 591, 2008.

<sup>7</sup> CFI Team, Insider Trading, Definition, Examples and Penalties for Insider Trading, Last Accessed on December 21 2025 <https://corporatefinanceinstitute.com/resources/wealth-management/what-is-insider-trading/>

they exploit it against gullible investors to make huge profits.<sup>8</sup>

The term "insider" is used comprehensively and includes a variety of individuals and groups, such as shareholders, Government officials, stock exchange personals, professionals or businessmen with official ties to a company (e.g., “*bankers, accountants, examiners, advisors, officers, and brokers*”), and employees of a company and its related companies. The voluntary exchange of shares in reaction to infest secret information that is not commonly known and has the possibility to “*materially affect the price of these securities forms the basis of insider trading*”.<sup>9</sup>

More ever, any information – direct or indirect – connecting to a company or its shares that is not easily available, but if it were, would have an influence on the securities, is known as unpublished price sensitive information or UPSI. This is prospect to have a crucial influence on cost and usually involves, but is not limited to, details about the following:

financial performance;

- Dividend;
- capital structure amendments;
- business mergers, de-mergers, acquisitions, delisting’s, sales and other related transactions;
- changes in key managerial persons; and
- material events as defined by the listing agreement.<sup>10</sup>

The argument is that if unpublished information about a company or its securities that is not usually known could materially influenced the price if it became public knowledge, it would

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<sup>8</sup>SEBI 2015 Review of Sebi (Prohibition of Insider Trading) Regulation, 2015

[https://www.sebi.gov.in/legal/regulations/nov-2022/securities-and-exchange-board-of-india-prohibition-of-insider-trading-regulations-2015-last-amended-on-november-24-2022\\_65864.html](https://www.sebi.gov.in/legal/regulations/nov-2022/securities-and-exchange-board-of-india-prohibition-of-insider-trading-regulations-2015-last-amended-on-november-24-2022_65864.html)

<sup>9</sup> Sneha Jaisingh, *Onus Under The Insider Trading Regulations Is On SEBI*, Onus Under The Insider Trading Regulations Is On S (June 21, 2022), Last Accessed on December 21 2025.

<https://www.mondaq.com/india/securities/1203874/onus-under-the-insider-trading-regulations-is-on-sebi>.

<sup>10</sup>SEBI 2015 Review of Sebi (Prohibition of Insider Trading) Regulation, 2015. Last Accessed on December 21 2025. [https://www.sebi.gov.in/legal/regulations/nov-2022/securities-and-exchange-board-of-india-prohibition-of-insider-trading-regulations-2015-last-amended-on-november-24-2022\\_65864.html..](https://www.sebi.gov.in/legal/regulations/nov-2022/securities-and-exchange-board-of-india-prohibition-of-insider-trading-regulations-2015-last-amended-on-november-24-2022_65864.html..)

be ponder price sensitive information. To bestow an exemplar guide to unpublished price sensitive information, the kind of cases that frequently give rise to such information are outlined above.

## REASONS FOR REGULATING INSIDER TRADING

The practice of insider trading has negatively impacted investors' confidence in the *"integrity and fairness of the financial markets."* Insider trading in market *"manipulation can cause a company massive losses"*, which in turn leads to losses for investors or large profits being realized exclusively by insiders. Thus, insider trading takes value away from an investor's opportunity to profit. It is important that the directors of the firm protect both the reputation of the company and its well-being. When a company faced insider trading, investors occasionally lose confidence in it and may determine to sell all of the company's stock in addition to close the investment in it. According to the statement, the continued integrity of the stock market and *"instilling public confidence in the financial community"* as a whole continues to need to be maintained by the market regulatory body. The rate of local investment in the Indian financial market is still very low. A strong financial system is important for an affluent economy and market confidence is essential for that.<sup>11</sup>

Those who are stranger to sensitive knowledge aggrieved of the consequences of insider trading. As a consequence, *"no security trading activity takes place"* The act of insider trading violates an obligation of responsibility, since it suggests treachery to both a Trustee and a Client both to be implied. There are many facets to why the improper use of *"information received as an insider can result in many problems:"*

- The insider gets an unfair benefit over anyone who have shortage of the information;
- There is a strife of interest because the insider's self-interests are served rather than the company's interests; and
- The reputation of the market is tarnished and investment is discouraged.

The assessment of those securities is influenced by the conditional purchase or sale of those

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<sup>11</sup> Connect with Risk Professionals. Accessed Last Accessed on December 21 20245 <https://www.riskpro.in/prevention-insider-trading-training-0>.

securities by the beneficial person when that person has reach to sensitive information. Furthermore, the fact that the beneficiary has reach to the sensitive information in question suggests that they have some kind of relation to the company that is bestowed them with the information they require. He may work for the company as a consultant, director or employee. This also has a negative influence on the company. Inside information cannot be used for personal profit by directors or employees; This is an essential condition for fair trade. Such action will be considered a “*breach of their duty towards the company. People will*” become disinterested in these professions. From time-to-time countries have articulated their resistance to these activities. The United States was a first in effectively combating insider trading. The Director is subject to a number of duties and requirements from the United Kingdom to manage the “*transfer of personal information.*” India has also created several rules in this regard. Examples of such regulations are the SEBI Regulations of 1992 & 2015 and the Companies Act.<sup>12</sup>

## HOW DID INDIA'S INSIDER TRADING REGULATION EVOLVE?

The first government recognition of insider trading as bad conduct came in the late 1970s. A committee series of reports urged that it be strictly regulated; As a result, in 1992, a regulatory authority was established.

- **Sachar Committee (1979)**

The Companies Act of 1956 and the MRTP Act of 19697 were to be reviewed by the “*High-Powered Expert Committee on Companies and the Monopolies and Restrictive Trade Practices Act (MRTP) (Sachar Committee)*”, which was “*set up in June 1977. The committee presented its report in 1979*”. The committee denotes two areas for consideration: First, All Individuals who receive information regarding sensitive pricing of an asset (or any information that may affect the value of the asset) will disclose their trading activities; Second, the Individuals who received the information will be prevented from continuing to trade this asset until a reasonable time has passed, except under special circumstances. Examples of Individuals in this category include directors of “*public companies, statutory auditors, accounters/certified public*

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<sup>12</sup> Overview of SEBI's Prohibition of Insider Trading Regulations (PIT Regulations), (Mar. 14, 2023), Last Accessed on December 22 2025. <https://www.taxmann.com/post/blog/overview-of-sebis-prohibition-of-insider-trading-regulations>.

*accountants, tax and management consultants /advisors, and legal advisors.”* Records of All Trade Transactions must be maintained by the Company, including the shares involved, their “*spouses and dependent children's shareholdings,*” and also, the full-time employees of the Company receiving a maximum monthly income up to Three Thousand Rupees.

- **Patel Committee (1987)**

In May 1984, the Government of India set up the strong Patel Committee with the goal of thoroughly evaluating the operations of the stock exchanges and preparing suggestions. “*The committee's final report recommended stiff penalties for insider trading and*” suggested that India's absence of unambiguous regulations on the improper use of inside information adds fuel to the problem. This conclusion came as a result of the committee's analysis, which suggests that insider trading is a widespread problem on the stock exchanges of India and also contributes to a large percentage of speculative transactions. There are many cases of individuals engaged in insider trading within the employ of financial institutions, accounting firms, legal firms, or consultants whom served as conduits for price-sensitive information that was not disclosed publicly.

- **ABID HUSSEIN COMMITTEE (1989)**

The Abid Hussain Committee, also known as the Working Group on “*Development of Capital Markets*”, was set up in 1989. The organization suggested that insider trading should be grouped as a grave crime that carries both criminal and civil sanctions. A chief resolution to the problem of insider trading and secret takeover bids would be the execution of adequate regulatory mechanisms. It was described that SEBI may be assigned with the power to make essential laws and execute them.

Following the suggestions of the committees, SEBI passed the following regulations to prevent insider trading:

- “*SEBI [Insider Trading] Regulation-1992*’
- *SEBI [Substantial Acquisition of Shares & Takeover] Regulations 1994.*’

- *SEBI [Prohibition of Fraudulent & Unfair Trade Practice relating to securities market] Regulations-1995.*<sup>13</sup>

They were also known as the SEBI (Prohibition of Insider Trading) Regulations 1992 (henceforth known as the “1992 Regulations”) after going through crucial amendments in 2002. But it is used in the light of additional rules set up on the ingredients of insider trading laid by SEBI and Supreme Court.

One such rule was currently issued in the Supreme Court's landmark judgment in *SEBI vs. Abhijit Ranjan*,<sup>14</sup> which originally changed the meaning of insider trading. The Abhijeet Ranjan case is crucial to perceive as it has drawn notice to the requirement for “*motive*” rather than men's *rea* in insider trading. This has been a topic of quarrel for a long time due to the arbitrary nature of the SEBI Act and restrictions. It is crucial to stress that the 1992 regulations – rather than the latest 2015 regulations – were relevant in this case.

## APPROPRIATE PROVISION OF INSIDER TRADING AND PIT REGULATIONS

Whether the “*intention*” of the insider is really a suitable facet in evaluating the presence of insider trading and, therefore, reckon it as a wrongful act in the reference of prohibitive rules/regulations, is a suitable and very agonistic topic in the above context, the main reason for this could be that insider trading is not officially defined by SEBI, unlike the “*SEBI (Prohibition of Fraudulent and Unfair Trading Practices Relating to Securities Market) Regulations, 2003*”, which set up a link between fraud and objective Does. Additionally, Section 12A of the Act rendered to transactions in securities “*whereas in possession of the UPSI, and Section 15G*” render to transactions in securities “*by foundation of the UPSI.*” The discussion on this has been revived by the current judgment of the Honourable Supreme Court in the case of *SEBI vs. Abhijit Ranjan*.

Before going into the description of the judgment it is important to dissection some key terms. It is worth noting that the term “*insider trading*” has never been defined in the reference of the most recent amendments. Rather, an effort has been made to derive it from various additional definitions defined by the Act.

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<sup>13</sup> Shekhar, Shudhansu. “INSIDER TRADING”. pp. 4-5. Burnished Law Journal, vol. 3, (2022)

<sup>14</sup> *SEBI v. Abhijit Ranjan*, Supreme Court. CMA 563 of 2020



The third regulation of the 1992 Regulations stress the ban on insider trading. It states that an insider "is not allowed to deal in securities listed on any stock exchange on his own behalf or on behalf of any other person if he has any undisclosed price-sensitive information". Furthermore, he is forbidden from revealing any such data or receiving it from any other person who has that data. Albeit, there are several exceptions to this rule and it is not always rigid.<sup>15</sup>

Ahead, "*any insider who deals in securities in violation of the above regulation may be held liable for insider trading,*" as per the Regulation 4 of the same.<sup>16</sup> Therefore, it follows that the following ingredients of insider trading may be present:

- According to Regulation 2(e), an insider is "*a person connected or believed to be connected with the company and who either has or is reasonably requisite to have unpublished price-sensitive information.*" The 2015 amendment widened the definition of an insider, by adding the concept of a connected person. It is crucial to remember that the term only depict possessing or having reach to previously specified information – it does not depict the means by which the above individual obtained it.<sup>17</sup>
- Transactions in securities are defined by Regulation 2(d) of the same Act as buying, selling, subscribing for or giving consent to buy any securities.<sup>18</sup>
- Violating the provisions mentioned in Regulation 3 discussed earlier.

It is therefore important to examine the meaning of "*unpublished price sensitive information*" provided in Regulation 2(k) of the above Act defines unpublished as any information which has not been made public by the corporation or its representatives.<sup>19</sup> On the other hand, price-sensitive information is defined as data that, if revealed, has the strength to significantly influenced the price of a company's shares. This data includes:

- The company's monthly financial performance;

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<sup>15</sup>Sebi. "SEBI (Prohibition of Insider Trading) Regulations 1992." Reg 3, *SEBI*. November 19, 1992. Accessed December 22 2025. Sebi." [https://www.sebi.gov.in/sebi\\_data/commndocs/ir1992\\_p.pdf](https://www.sebi.gov.in/sebi_data/commndocs/ir1992_p.pdf).

<sup>16</sup>Sebi. "SEBI (Prohibition of Insider Trading) Regulations 1992." Reg. 4, *SEBI*. November 19, 1992. Accessed December 22 2025. Sebi." [https://www.sebi.gov.in/sebi\\_data/commndocs/ir1992\\_p.pdf](https://www.sebi.gov.in/sebi_data/commndocs/ir1992_p.pdf)

<sup>17</sup> Saurabh Chakraborty, "Insider Trading in India". p.1573, 5, (2022):

<sup>18</sup> Sebi. "SEBI (Prohibition of Insider Trading) Regulations 1992 Sec.2(d)." *SEBI*. November 19, 1992. Accessed December 22 2025. Sebi." [https://www.sebi.gov.in/sebi\\_data/commndocs/ir1992\\_p.pdf](https://www.sebi.gov.in/sebi_data/commndocs/ir1992_p.pdf)

<sup>19</sup> Sebi. "SEBI (Prohibition of Insider Trading) Regulations 1992 Sec.2(k)." *SEBI*. November 19, 1992. Accessed December 22 2025. Sebi." [https://www.sebi.gov.in/sebi\\_data/commndocs/ir1992\\_p.pdf](https://www.sebi.gov.in/sebi_data/commndocs/ir1992_p.pdf)

- planned interim and final dividend declarations;
- issuance or buyback of securities;
- any crucial expansion plans or launch of new initiatives.
- consolidation, acquisition, or merger; etc.

The SEBI exists to provide oversight of both companies and their employees that are based in India. It does so by ensuring the monitoring of all suspicious transactions associated with the buying and selling of listed securities. Established in 1992, the SEBI was created as a response to the TISCO incident when a lawsuit was brought forth against “*TISCO regarding whether or not insider trading occurred.*” At that time there was no concrete evidence to support the allegation that insider trading took place and therefore the judge ruled that insider trading did not take place in this instance. Because the Task Force on Insiders was unable to identify penalties due to the lack of any regulatory enforcement structure, SEBI established the “*Regulations on Insider Trading, 1992*”, which ultimately led to a comprehensive overhaul in 2015 of our country's insider trading regulatory framework. Because illegal transactions were not covered within the parochial scope of regulation, the “*SEBI (Prohibition of Insider Trading) Regulations, 2015*” was set up to address these shortcomings. In 2019, another important change was passed, this time trying to address both direct and indirect transactions. Therefore, the “*SEBI (Prohibition of Insider Trading) Regulations, 2015,*” as well as “*Sections 12A (Prohibition of Insider Trading) and 15G (penalty for insider trading)*” of the SEBI Act are the current laws which govern insider trading in India.<sup>20</sup>

## HISTORY OF THE CASE

It is crucial to perceive the background information of the case in order to make a more thorough evaluation of the case. The Honourable Supreme Court of India delivered judgment in this case following a series of orders beginning in July 2014. The “*managing director and chairman of Gammon Infrastructure Projects Limited (henceforth known as “GIPL”)*” was Abhijit Ranjan. In 2012, GIPL signed a contract with the “*National Highways Authority of India to form Vijayawada Gundugolanu Road Project Pvt., a special purpose company*

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<sup>20</sup> *Comparative Analysis Of Insider Trading Laws In India, UK And USA*, (December 28, 2024), Last Accessed on December 22 2025. <https://www.ijllr.com/post/comparative-analysis-of-insider-trading-laws-in-india-uk-and-usa>.

(henceforth known as “GRPP”). Under an identical deal, another business, *Simplex Infrastructure Limited* (henceforth known as “SIL”) set up Maa Durga Expressways Pvt. Ltd. (henceforth known as “MDEPL”). Soon thereafter, GIPL and SIL concluded two agreements whereby each corporation would provide financial support to one another. However, the GIPL board subsequently approved an outstandingly unusual and unexplained action by the GIPL board of directors to allow the resolution of the employee contracts to be terminated on or about August 9 2013, and this announcement was released to the general public on “*July 30 for a period of twenty-five days from the date of the public statement.*” In addition, on or about July 22 of that same year, Abhijeet Ranjan was reported as having sold nearly “*one hundred forty-four lakh (1.44 crore) shares of GIPL,*” the combination of these events triggered an investigation by the Securities Exchange Board of India (SEBI).

In violation of “*Section 12A(d) and (e) of the Securities and Exchange Board of India Act, 1992*”, SEBI began a preliminary inquiry and issued an interim ruling finding the accused guilty of insider trading. Subsequently, an affirmation order was issued thereon, and Mr. Ranjan successfully appealed against the decision in the Securities Appellate Tribunal. But SEBI defiance the above decision in the Supreme Court, due to which this decision came into force.

## COURT FINDINGS

Because Justice V. Rama Subramaniam’s judgment profoundly reviews “*Regulations 3 and 4 of the 1992 Regulations,*” it is incredibly crucial. The Securities Appellate Tribunal gave three reasons for its decision in favor of Abhijit Ranjan before assessing the ratio decidendi. According to the tribunal, firstly, the two accomplished shareholder agreements did not contain information that was price sensitive. Second, the tribunal investigate Abhijit Ranjan's inspiration for selling the shares and the cause behind it. The tribunal decided that his trading in securities was not connected to the information he possessed because he had an exigent requirement to sell those shares to re-formulate the corporate debt. Finally, it was the share price that necessity to be ponder. The Hon'ble Supreme Court finally heard the arguments of learned advocates from both the parties challenging this order. The court then sum up the main legal issues into three claims.

- Does the revocation of those two shareholder agreements fall within the scope of Section 2 (ha) of the 1992 Regulations as price-sensitive information?

- The query is whether selling those shares for any cause should be taken into account or whether merely trading in securities in possession of such information is a breach of Regulations 3 and 4.
- What trading price should SEBI have pondered? To calculate Abhijeet Ranjan's profit from business, this had to be done.

The court, in response to preliminary questions, looked into the meanings of “*price-sensitive information*” and “*unpublished*” under sections 2(ha) and 2(k) of the 1992 Regulations.” The court noted that in 2002, these definitions were changed to include more information. The amendment widened the definition of “*unpublished*” to involve any information such as price-sensitive information which may have an adequate influence on the plans, policies or activities of the company see “*Explanation (vii) to Regulation 2(ha)*”.<sup>21</sup> The court noted that Explanation (vii) may or may not have the same impact as other explanation in the rules, probable increasing the possibility of large instability in securities prices. The amendment made it clear how crucial it is to decide whether the details given in “*Explanation (vii)*” will actually have a meaningful influence on the prices of securities. Regardless preliminary hint of guilt, Abhijeet Ranjan was found not guilty because his sales were made with the motive of respect a corporate debt re-formulation package, which was grouped as a “*distress sale*” and did not involve a desire for profit. The court stressed on this requirement in assessment of whether the features of insider trading were satisfied.

The court ahead held that the sale would technically have been at a loss because the prices of the securities would have enhanced after the manifestation of the information; Citing the **Kanaiyalal Baldevbhai Patel**<sup>22</sup> case, it was stressed on that the timing and nature of the transactions are crucial in deciding whether a person has attempted to profit from insider trading information. But it also emphasis on that the same is not the same as men’s rea, which, in pursuance with regulation 7 of the 1992 Regulations, is clearly an inadmissible defense. Because Abhijeet Ranjan's sale of GIPL shares was “*similar to a distress sale and before the information had a positive influence on share prices,*” the court upheld Ranjan's acquittal on the grounds that insider trading could not be proven by actual profit can be done, but can only

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<sup>21</sup> Ashvi Jain, and Samridhi Bajoria. “Profit Motive: Still relevant in Insider Trading.” *Manupatra Article*. August 25, 2023. Accessed Last Accessed on December 22 2025. <https://articles.manupatra.com/article-details/Profit-Motive-Still-relevant-in-Insider-Trading>.

<sup>22</sup> “Shri Kanaiyalal Baldevbhai Patel Versus Sebi.” Supreme Court, CA 1595 (2020)

be proven to have a profit motive, as opposed to *men rea*. The decision in *Quantum Securities Pvt Ltd v SEBI*<sup>23</sup> established that to setup the liability in insider trading proceedings the shares of a business must be traded as per the UPSI related to the firm. The clarification in “*Regulation 4(1) of the PIT Regulations*,” which makes it clear that any transaction made by a person while “*in possession of the UPSI shall be deemed to be conducted or influenced by the UPSI*,” is in violation with its significance. Motives in insider trading cases. Earlier, this presumption prevented SEBI from considering the motivation of the suspected insider, which led to several inconsistent orders being issued by SEBI. Because of this disparity, the rules governing insider trading are vaguely enforced.

## ROLE OF ARTIFICIAL INTELLIGENCE IN CONFLUENCE OF LAW AND PROFIT

The intersection of profit and law is mostly affected by artificial intelligence (AI). The regulatory inspection obligations of organizations such as the “*Securities and Exchange Board of India (SEBI)*” can be indeed improved by the predictive modeling, self-drive decision-making, and data analysis powers of AI. In this specific condition AI can be used to examine large amounts of trading data to catch irregularities and trends that may point to insider trading or probable market control. SEBI is better equipped to use AI to catch and look into activities that may put profit ahead of law and ethics. This guarantees the unanimity and transparency of the operations of financial markets. AI also provide to building a holistic adherence framework that in advance manages risks and aligns business objectives with legal claim. This use of artificial intelligence (AI) in regulatory procedure shows how technological growth can help assist the rule of law, safeguard investors' interests, and encourage a fairer financial environment. Artificial Intelligence (AI) is being used by the “*Securities and Exchange Board of India (SEBI)*” for investigation objective, “*Kamlesh Chandra Varshney, Whole Time Member of SEBI*”, said on February 24. The speaker stressed the requirement for organisation to keep up with technological growth. He said the lesson is that following the law will be more profitable and breaking it will lead to problems, particularly in the wake of stock market manipulation cases. Replying to a PTI question on Sebi's use of AI, Mr. Varshney said they use it for multiple aim, involving investigations. He was speaking on the sidelines of the “*13th International Conference of the Association of National Exchanges Members of India (ANMI)*” in the national capital. In pursuance to him, the regulator has no problem with transparency and

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<sup>23</sup> Quantum Securities Pvt. Ltd. vs Sebi Misc. Application No.235 of 2018

absence of manipulative activity in the market. Along with improving transparency and taking action to inhibit wrongdoings, Sebi is pursuing offenders.<sup>24</sup>

## COMPARITIVE JURISPRUDENCE ON INSIDER TRADING AND TECHNOLOGICAL SURVEILLANCE

India maintains different insider trading laws when compared to internationally accepted insider trading laws. For example, the United States has traditionally maintained an aggressive method of enforcing insider trading laws versus India. “*U.S. insider trading law is primarily governed by Rule 10b-5 of the Securities Exchange Act of 1934,*” which adopts a strict liability concept in terms of the elements necessary to establish violations of insider trading laws; i.e., the only element that must be proven is whether or not the accused “*persons possessed and traded on the basis of material nonpublic information.*” To assist it in the investigation and “*prosecution of purported violations, the U.S. Securities and Exchange Commission (SEC)*” employs numerous high-tech algorithmic tools.<sup>25</sup> Similarly, in the U.K., the Financial Conduct Authority (FCA) uses an objective standard, not the subjective basis of intent, as specified under the “*U.K.’s Market Abuse Regulation (MAR)*”, to protect the integrity of the marketplace.<sup>26</sup> In addition, European Union legislation has established more rigorous transparency and accountability standards under the “*MiFID II (Markets in Financial Instruments Directive II)*” framework to further enhance their governance of algorithmic and high-frequency trading practices. In contrast to these international standards, the standard of proof required by the Indian Supreme Court (see Abhijit Rajan) for violations of insider trading laws is that the accused must demonstrate “*profit motive,*” which will likely deprive India's insider trading laws of any meaningful deterrent effect. Given these factors, it is likely that the competitiveness and credibility of India's capital markets will come into question.<sup>27</sup>

## LIMITATIONS OF ARTIFICIAL INTELLIGENCE IN INSIDER TRADING ENFORCEMENT

While systems using Artificial Intelligence (AI) for “*surveillance can provide many advantages, there are also significant disadvantages to these systems.*” The most significant

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<sup>24</sup> *SEBI India uses AI for investigations*, The Hindu (Mar. 7, 2024), Accessed on December 22 2025 <https://indiaai.gov.in/news/sebi-india-uses-ai-for-investigations>.

<sup>25</sup> Securities Exchange Act of 1934, 15 U.S.C. § 78j(b); 17 C.F.R. §240.10b-5.

<sup>26</sup> Regulation (EU) No. 596/2014 of European Parliament and of the Council (Market Abuse Regulation).

<sup>27</sup> Directive 2014/65/EU of the European Parliament and of the Council (MiFID II).

limiting factor is that they do not have any ability to analyze the context, motivations or justification for a trading activity, all of which are essential to determine whether insider trading took place. On the other hand, AI systems are effective at producing evidence through statistical analysis and identification of anomalies/trade errors. Excessive reliance on historical data may lead to rampant criminalization of individuals based on inaccurate association with a prior event or conduct. The status of a finding produced by “*AI systems in quasi-judicial procedures before the Securities and Exchange Board of India (SEBI)*,” and/or the Courts of Appeal, has not been defined in regard to its significance as evidence, under Indian law, nor has the legal framework been established for determining the “*significance (probative value) of algorithmically generated evidence.*”<sup>28</sup>

## REGULATORY LOOPHOLES & CONCLUSION

Although the Abhijit Ranjan decision makes additional uncertainty, it attempts to address loopholes in India's insider trading laws. Although the elements look like simple at first, Regulation 12A bans transactions in securities “*in possession*” of material information, and Regulation 15G penalizes trading “*on the basis*” of such information, thereby misusing non-public knowledge. Suspicion arises about the importance of the intention to do so., As a result, proving guilt becomes arbitrary. The judgment stressed on the need to displayed financial motivation distinct from men’s rea, repeating the finding made by the Securities Appellate Tribunal in the case of *Rakesh Aggarwal vs SEBI* in 2003.<sup>29</sup>

Moreover, it helped in stopping the intense regulatory power of SEBI in terms of investigating and establishing offenses for such acts. In the present case, it was seen that Abhijeet Ranjan was found guilty of the same offenses even though SEBI had acquitted the co-notifier “*Consolidated Infrastructure Company Private Limited and its directors without any good explanation.*” This official decision-making process was need to be managed by SEBI and was successfully completed.<sup>30</sup> Albeit this is a landmark judgement for those accused of insider trading who had no volition to abuse the price-sensitive knowledge available to them, it is a deviation from the previous legal position in which the same clause was given a different

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<sup>28</sup> Chairman, SEBI V. Shri Ram Mut. Fund (1974) 5 SCC 361

<sup>29</sup> “Rakesh Aggarwal vs SEBI.” SAT, 1 CompLJ 193 SAT, 2004 49 SCL 351 SAT (2004)

<sup>30</sup> Sucheta Dalal. “Insider Trading: SC Stops SEBI's Regulatory Overreach in Abhijit Ranjan Case.”. MONEYLIFE, (04-03-2022), “Accessed Last Accessed on December 22 2025. <https://www.moneylife.in/article/insider-trading-sc-stops-sebis-regulatory-overreach-in-abhijit-rajana-case/68407.html>.

meaning. The court did the same to a very respectable and long-standing law, regardless the fact that this deviation could only be applicable through principles of statutory reading, which it failed to do.<sup>31</sup> Recent decisions have set a new norm in jurisprudence, moving away from the long-standing precedent set by the courts, as proof by cases such as **Chairman, SEBI v. Shriram Mutual Fund**, in which it was held that undisclosed price-sensitive Trading with information shows motivation and puts the onus on the insider to bestow evidence to prove his innocence.<sup>32</sup>

Additionally, the decision bans the assortment of amendments to corporate policies as information that is sensitive to price changes, thereby required by the company to have an influence on its stock prices. However, this limitation is doubtful because there is no accurate norm for deciding a “*material change*” in securities prices, resulting in the opacity of the term that can lead to misuse. In a case that was comparable, the court differentiate between men’s rea and profit motive but did not stress on the distinction in a meaningful way. This decision makes even more subjectivity because it makes the profit motive more suitable in these situations, and raises more actual issues continuously the legal process. Albeit this decision focus to clarify the definition of insider trading, it ignores the fact that the term is never clearly stated in the statute and is instead derived from various other words. “*The 1992 regulations did not involve any definition.*” Rather, they provide a definition of an insider and framework prohibited behaviors connected with insider ownership of confidential, price-sensitive information. By making the linkage between these two definitions, the Court has continuously applied its own interpretation of the definition of insider trading to adjudicate. It is crucial to retrace that a brief definition of the phrase is necessary. Furthermore, correct definition of the term overall is important as the definitions of the phrases used to define insider trading have evolved over the course of the amendments. Therefore, correct definition of the entire phrase is crucial.

Albeit the influence, scope, and impact of insider trading may vary from country to country, it always has a negative impact on a country’s fame. Every shareholder invests money in the market with the expectation that it will be transparent and efficient. The amount of money invested in the securities market has currently skyrocketed. Globalization has made investing

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<sup>31</sup> Umakanth Varottil. “Supreme Court on Motive as a Precondition for Insider Trading.” *India Corp Law*. September 26, 2022. Last Accessed on December 22 2025. <https://indiacorplaw.in/2022/09/supreme-court-on-motive-as-a-precondition-for-insider-trading.html>.

<sup>32</sup> The Chairman, SEBI v. Shriram Mutual Funds & Anr, Supreme Court, CMA 9523 9524 (2006)



easier than ever, and people from different countries are investing around the world. Global securities markets have developed over the past few decades, offering a wider diversity of tradable securities and more complex trading techniques. A nation's economy depends on maintaining the integrity of these markets, which requires regulatory action to prevent market abuse. Insider trading enforcement is becoming a global issue that beyond national boundary. Foreign regulators want to attract the international investment community while increasing the confidence of domestic investors. Creation of special courts is being considered to increase the efficiency and speed of case resolution.