STRUCTURAL INFORMATION ASYMMETRY IN INDIA'S BLOCK DEAL FRAMEWORK: A SOCIO-LEGAL ANALYSIS OF RETAIL INVESTOR DISADVANTAGE

Nishita Garg, B.A. LL.B. (Hons.), JIMS Engineering Management Technical Campus (JIMS EMTC) School of Law, Guru Gobind Singh Indraprastha University

ABSTRACT

The fast growth of the Indian capital market has in practice pulled in more retail investors , which makes investor protection kind of a core goal for securities regulation. Even though the Securities and Exchange Board of India (SEBI) has put in place a wide regulatory scheme aimed at keeping market integrity intact, still there are certain legally sanctioned mechanisms that keep creating uneven access to market information. This paper looks at the Block Deal Framework as one of those mechanisms and suggests that it ends up generating a kind of structural information gap, one that systematically leaves retail investors worse off. In contrast to the more typical insider trading scenario, where the law is meant to handle information asymmetry that comes from insiders misusing unpublished price sensitive information, here the gap is tied to the regulatory architecture itself. Institutional counterparties arrange and carry out the big trades through a special trading window, and then disclosure of those block deals is postponed until after market hours, so retail investors basically get material market information late, not at the moment it would normally be expected. Using a doctrinal socio-legal approach the paper looks at the relevant Regulatory and Legal frameworks, and the relevant decisions of courts. It basically shows that the current legal framework leans heavily toward inter party fairness between institutional counterparts, while it pretty much misses the bigger, market wide fairness idea and as a result it leaves retail investors at a clear disadvantage, which is not just a side effect. The paper then checks the 2025 reforms and it concludes that even if they improve transparency in some day to day operational steps, they do not really fix the core trouble, namely delayed information dissemination. Finally it suggests specific regulatory adjustments, including time bound disclosure tools, protections against price manipulation and the need to recognize structural information asymmetry within India’s securities law setting, so investor protection gets stronger and the capital market becomes more fair in practice.

Introduction

The Indian Capital Market has developed enormously over the past decade, today, a ton of Retail Investors invest their money through stock exchanges which was limited to institutional players a decade ago. Witnessing this rapid growth in Indian Capital Market , Securities and Exchange Board of India introduced regulatory framework to protect the interest of Retail investors, but the thing to note is that in this regulatory framework itself lies a mechanism which among it's two types of investors that is Institutional and Retail creates difference to information access between them. That mechanism is known as "Block Deal Window". Block Deal Window is an arrangement where big institutional investors like Mutual Funds or Foreign Institutional Investors trade their large volume of shares through exclusive trading window, where buyer and seller are pre-decided via private negotiations. One objective of this mechanism is to avoid the negative impact like market disruption, but the other side of this arrangement is that the Retail Investors are not informed about these transactions until the market closes, according to the SEBI regulatory frameworks, the information would be passed to the Retail investors only "after hours" which means once market is closed. This time gap, where institutional players get the information of the trade much earlier than Retail Investors gives rise to structural information asymmetry. In the next trading session when the information gets public, Retail Investors need to act accordingly whereas Institutional players get to trade on more favourable prices already. SEBI in October, 2025 introduced reforms in Block Deal framework in which minimum order size, brand price and disclosure requirements have been changed. This reform improves some dimensions of the transperancy for the good but the core issue that is the time of information disclosure remains the same. In this context, this paper presents socio-legal aspect of Block Deal framework. The objective of this paper is to analyse that whether this regulatory mechanism by its existing structure, puts retail investors in systematically disadvantageous position and if yes, then does existing legal frameworks address this information asymmetry enough or not. For this analysis, we would be using doctrinal legal sources like SEBI circulars and Judicial precedents, to show that existing Insider Trading Jurisprudence only addresses fairness inside transaction but overlooks disadvantageous position of Retail Investors.

Conceptual Framework

In order to understand this paper we must understand a fundamental concept i.e., Information

Asymmetry. In terms of Securities Law, information asymmetry means when a party to the trade has more and earlier access to the information than other party which results in unfair benefits. Whole regulatory structure of Capital Market stands on the principle that if all investors get similar information at the same time then market would work fairly and efficiently.We can understand this concept in two ways, and these both are important for this paper: The first one is Insider vs Outsider Asymmetry which is the core concept of traditional insider trading. This concept revolves around the problem when any person because of his position in a company has access to Unpublished Price Sensitive Information, and by exploiting his position, he uses that information to trade, this type of information is not available with general public. SEBI Regulations, 2015 were introduced to prohibit this type of information asymmetry. The second type is Institutional vs Retail Asymmetry which is the core focus of this paper. This problem is not about any individual insider but about whole regulatory mechanism like Block Deal Window which by its very own design benefits the Institutional Investors over Retail Investors. This asymmetry persists only because of structural regulatory frameworks that is why it is also known as "structural" or "systematic" information asymmetry. It is necessary to understand this distinction because existing insider trading only addresses the first type of asymmetry but nowhere mentions about the second type of asymmetry affecting the class of Retail investors. The second type of asymmetry would be referred as "the information gap" in this paper. The central theme of this paper would be how a legally sanctioned, SEBI-approved mechanism generates a gap and existing legal frameworks failed to cover it. Block (large sized) trades are usually associated with presence of private information and are associated with price movements resulting from inventory costs and asymmetric information. Arrival of block trades in the market signals the presence of private information and this causes the investors to revise their price expectations depending on the nature of block trades. We analyze the information and liquidity effects of large size trades (referred to as block trades) by measuring the price impact of these trades. The price impact of block trades is measured using opening and closing prices as reference prices. We also examine the price behavior (return and volatility) of block trades using high frequency data. The analysis has been done at 1-minute time intervals. The study is done using a large data set (500 companies) over a long time horizon (108 months) which increases the generalizability of the results.[1]

[1] Sobhesh Kumar Agarwalla & Ajay Pandey, *Price Impact of Block Trades and Price Behavior Surrounding Block Trades in Indian Capital Market*, IIMA Working Paper No. 2010-04-02, 3, (2010)

Legal and Regulatory Framework

Block Deal framework is not an independent regulation, it is connected to a big legal chain where power is derived from legislative acts made by the parliament to circulars passed by SEBI. This chain starts from the SEBI Act, 1992. Section 11 (1)[2] provides general power to SEBI that it should protect the interests of the investors and regulate the Securities market. The SEBI gets power to pass and make regulations and circulars by this very fundamental provision. After this comes the Securities Contracts (Regulation) Act, 1956[3], which regulates the working of stock exchanges. Regulation 51 of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018[4] which was made under Securities Contracts (Regulation) Act, 1956, provides specific power to the SEBI to give directions to the stock exchanges and this is the provision through which SEBI passes circular concerning block deals in October, 2025. The third important statute is Depositories Act, 1996, which gives power to SEBI to regulate dipositories like NSDL, CDSL under section 26(3)[5] along with which comes Regulation 97 of SEBI (Depositories and Participants) Regulations, 2018[6]. This chain from Act to Regulation and from Regulation to circular clearly shows that Block deal framework is a legally valid and authorized mechanism. But this raises a serious question for this paper, if this mechanism derives its powers from the "investor protection" mandate of the SEBI Act, then does it itself fulfill that mandate or does it protect rights of only a small section of investors i.e., Institutional investors. The core objective of SEBI (Prohibition of Insider Trading) Regulations, 2015[7] to prevent people from misusing their privileged position by using Unpublished Price Sensitive Information for trade, the information which general people do not have. But proviso (ii) of the Regulation 4(1)[8], which came into effect from April 1, 2019 provides an exception that if any transaction takes place through Block Deal window mechanism and if both the parties, the buyer and the seller, were aware about UPSI, then such transaction would not violate Regulation 3[9] which prohibits unauthorized UPSI sharing, and both parties took conscious informed decision, then such transaction would not be considered insider trading. The logic behind this is that if both the parties have similar knowledge that is

[2] Securities and Exchange Board of India Act 1992 § 11(1)
[3] Securities Contracts (Regulation) Act 1956
[4] Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations 2018 reg. 51.
[5] Depositories Act 1996 § 26(3)
[6] SEBI (Depositories and Participants) Regulations 2018 reg. 97.
[7] SEBI (Prohibition of Insider Trading) Regulations 2015.
[8] SEBI (Prohibition of Insider Trading) Regulations 2015 reg. 4(1), proviso (ii)
[9] SEBI (Prohibition of Insider Trading) Regulations 2015 reg. 3

information symmetry then there is no unfair advantage between them which is why the concept of Insider trading does not apply here. This exception is very important for this paper because it shows that law only looks at the fairness inside the particular transaction that is between the buyer and the seller. But nowhere in this exception affect of such transactions on the retail investors has been discussed for once when the information discloses in the market after hours. Then comes the Block Deal circular of October 8, 2025[10] passed by SEBI which is the most important primary legal document of the paper. It was passed on October 8, 2025 and became effective from December 7, 2025. Through this circular certain changes were made, the price band was changed from ±1% to ±3%, the minimum order size was changed from 10 Crore INR to 25 Crore INR, it also states that the information of exchange of trade will only be made public after the hours when the market closes.

Judicial Framework

In order to understand the Block Deal mechanism we must first understand the regulatory philosophy behind it. This philosophy can be most clearly seen in the case of Bharti Airtel Limited.[11], where the adjudicating officer referred to SEBI's Sodhi Committee which reviewed PIT Regulations. The reference used was "*The Committee believes that in situations where both the buyer and the seller of securities are in possession of identical information, the trade by itself should not be rendered violative. Likewise, where the counterparty to the trade is clearly identifiable and in a bilateral trade the counterparty was indeed privy to the very same UPSI, the trade should be held to have wronged no one*." This quote is the conceptual foundation of this paper. This shows that Block Deal exception is based on the logic that, if both parties have similar knowledge about the trade and market which is information symmetry then there is no unfairness between them. In the facts of this case, Gopal Vittal, Managing Director of Bharti Airtel, sold shares to Bharti Telecom Limited through the Block Deal window, months before the company announced a major acquisition that caused its share price to rise by 7–8%. SEBI ultimately closed the proceedings, holding that the underlying information had already become "generally available" through media coverage by the time of the trade. This entire line of reasoning, whether that of the Sodhi Committee or of the Adjudicating Officer is concerned exclusively with fairness between the two trading parties. At no point, it was discussed about prejudice caused to retail investors due to information

[10] SEBI Circular No. SEBI/HO/MRD/POD-III/CIR/P/2025/134, October 8, 2025
[11] Bharti Airtel Ltd., In re, 2020 SCC OnLine SEBI-AO 85

asymmetry and retail investors receiving delayed information. "No prejudice done" means there was no prejudice done in between the parties, but the information gap outside the transaction in the market, remains completely out of the arena of this analysis. This is precisely the gap this paper seeks to expose: the regulatory framework achieves inter-party fairness while leaving market-wide fairness unaddressed. The same Sodhi Committee rationale was recently reaffirmed by the Securities Appellate Tribunal in Rajesh Bhatia and Ors. v. Securities and Exchange Board of India[12]. In this case, the promoters of Tree House Education & Accessories Limited sold a 9% stake through the Block Deal window to companies belonging to the ZEE group, at a time when a possible merger was also under discussion. SEBI alleged that the appellants possessed UPSI relating to the proposed merger and had therefore engaged in insider trading. Allowing the appeal, the Tribunal held that "*The underlying objective of the Insider trading regulations is to prevent unfair advantage to Insiders having access to non-public, material information, at the expense of other investors. However, where both parties have information symmetry, there is no question of unlawful gains for one party at the expense of the other, e.g. where trading has been done between two parties through off-market deal or block deal, while having access to UPSI without violating Regulation No. 3*." Significantly, the Tribunal further observed that "*There is no possibility for an uninformed party to participate in a block deal*." This observation is perhaps the strongest judicial confirmation available for this paper's thesis. The tribunal itself confirms that the design of the Block Deal is such that any uniformed party cannot participate in it. But this thing by very fact is the root of the problem because retail investor is not the direct participant in this transaction, so his interest never becomes part of the analysis of the tribunal. In fact we can see that after the disclosure of the transaction, retail investors get affected the most by market reaction. To place this discussion in the broader jurisprudence on information asymmetry, it may be useful to cite Securities and Exchange Board of India v. Abhijit Rajan[13]. In this case, the Supreme Court basically said that for insider trading, one has to prove a profit motive. Just having UPSI at the time of the trade isn't enough, on its own, to show a violation. The Court seemed to move from the idea that insider trading rules are meant to stop someone from using privileged and unequal access to information for unlawful gain, at the expense of other market participants. This ruling gives an important conceptual backdrop, it shows how seriously Indian courts take information asymmetry, especially when it shows up at the level of a single insider. But then the same core

[12] Rajesh Bhatia v. SEBI, 2025 SCC OnLine SAT 271.
[13] Securities and Exchange Board of India v. Abhijit Rajan, 2024 11 SCC 645.

issue, when it appears in a more structural or regulatory way like in the Block Deal Framework does not get the same type of judicial testing. The reason, as implied here, is that the mechanism is SEBI-sanctioned, so it is treated as presumptively lawful. This difference, meaning, strict scrutiny for individual-level information gaps, together with a kind of regulatory approval for structural information asymmetry is really the main thrust of this paper.

The Core Argument: Structural Disadvantage to Retail Investors

Under the previous heading we saw the regulatory and legal fundamentals of Block Deal Framework, and how Judiciary sees this mechanism. Now in this section the central argument on this paper would be presented. We will reflect on how this mechanism gives a structural and systematic disadvantage to the retail investors, not because of any individual but by the regulatory architecture itself. One important distinction we need to see is that in the case of traditional Insider Trading, the problem is created by the act of an individual who has access to UPSI, for such an act he could be punished. But, in the context of Block Deal no "individual wrong" is done, everything is done legally, transparently and according to SEBI circular. Institutional Investors do not violate any rules, disclosure of transaction is also done but after hours, and band price is also within settled criteria. Hence, the disadvantage to the retail investors could not be challenged in any tribunal or court as it does not violate any law technically. This asymmetry exists by the very nature of the regulatory and legal frameworks and not because of actions of any individual. This is the reason for why this problem remains invisible and under addressed because no legal remedies apply on this situation as no official wrong is done in this transaction. One more important dimension is price impact timing. When any large institutional trade takes place through Block Deal, it is meant to execute the trade without disturbing the market, at this desired price. But this only avoids disadvantage for buyers and sellers, if this transaction would have been done in real time, then every investor would have access to the market's live reaction and price impact on stocks, through which, retail investors could react to the transaction and price impact immediately. Block Deal window suppresses this price impact temporarily, price does not move immediately, instead the movement is delayed and takes place later in the next trading session. Due to this, the Institutional Investor can "clean" trade at an undisturbed price, but retail investors have to face this price impact in a delayed and concentrated manner which is more volatile and unpredictable for them. This whole argument stands on a central distinction, which this paper aims to clearly establish, In cases like Rajesh Bhatia and Airtel Bharti Limited, we see within-transaction fairness, where both the parties i.e., the buyer and the seller has access to similar information also known as information symmetry. The current legal framework currently focuses on this fairness only. If we talk about Market-wide fairness, the type of fairness in which all investors have information symmetry at the same time, the current legal framework does not address this type of fairness at all. There is no statutory provision which addresses specifically about delayed information access to retail investors. The core contribution of this paper is to highlight the issue that current regulatory and legal frameworks fail to address the prejudice done with retail investors in terms of information symmetry. This paper aims to highlight the absence of legal remedies in favour of retail investors and there is a high requirement of policy interventions to protect the rights of retail investors.

Analysis of SEBI Circular, 2025

Having looked at how the Block Deal Framework works, how courts have handled it, and how it naturally leaves retail investors behind, we can now look at SEBI's October 8, 2025[14] circular. The main question here is simple, do these new rules actually help normal retail investors, or did SEBI just make life easier for big institutional players while leaving ordinary people in the dark ?To be fair , the circular does bring in a few decent changes that clean up the system a bit. For one, Paragraph 2.2.4 of SEBI[15] circular now says that stock exchanges have to show the actual name of the client doing the trade, not just the stock name, quantity and price. This makes it easier to catch insider trading or related party deals, which brings some basic accountability. Also, the circular strictly says that block deals must result in actual delivery of shares and cannot be reversed or squared off on the same day. This stops people from doing quick, "in and out", fake speculative trades in the block window. Plus, raising the minimum trade limit from ₹10 crore to ₹25 crore means smaller speculative players get pushed out, keeping the window only for massive, serious orders. So yes, these changes make the market a little cleaner, but SEBI completely missed the main problem we are talking about in this paper: the disclosure timing. The biggest issue with the old system was that retail investors only found out about these huge trades long after they happened, and Paragraph 2.2.4 keeps that exact same rule. The details are still released to the public only after market hours on the same day. This means the information gap between big institutions and retail investors remains basically untouched. SEBI clearly focused on making sure big trades are genuine, but it did not

14 SEBI, *supra* note 10
15 *Id.*

care enough to give retail investors this information on time so they could actually protect themselves. What is worse is that one specific change actually makes things riskier for retail investors, SEBI widened the allowed price band from ±1% to ±3%. Earlier institutions had to trade very close to the prevailing market price, so the jump the next morning was usually small and not that dramatic. Now institutions get three times more room to haggle over their price. And yeah while this extra latitude is excellent for big funds it also causes much bigger price whiplashes for normal investors. By the time a retail investor finishes reading the news at night, and then tries to buy or sell the next morning, the stock price might have already spiked or slumped by a much wider margin. SEBI also seems to have completely ignored a well-known price games trick people use to manipulate quotes. Earlier, we saw the IIFL Wealth Management case from 2022, which showed that the afternoon window VWAP reference price could be easily tilted between 1:45 PM and 2:00 PM. Even though everyone knows this weakness exists, the October 2025 circular keeps the same exact 15-minute window, and it adds no fresh safety rails, like randomizing the timing or using a blended average across different slots. So the loophole that got exposed years ago is still wide open, and with the wider ±3% band manipulators now have even more space to move around. If we stitch everything together, the verdict is pretty plain. The October 2025 circular does score a few points for client disclosures, compulsory delivery, and higher entry limits. But because SEBI kept the disclosure timing hidden until after market hours, expanded the price band, and just overlooked the VWAP manipulation issue, the reform does not really protect everyday retail investors. In the end, SEBI basically just tidied up the rulebook for large institutional players, and retail investors are left exposed to the same disadvantages as before.

Recommendation

Our evaluation of the Block Deal Framework shows a clear gap in how SEBI and Indian courts, sort of think about market fairness. In examples of cases like Bharti Airtel[16] and Rajesh Bhatia[17], both the regulator and the courts seemed to focus almost only on inter-party fairness, i.e. as long as the institutional buyer and seller know the same information, the deal gets treated as fair, no further fuss. Yet that reasoning quietly ignores market-wide fairness. The October 2025 SEBI circular did improve trade hygiene by pushing for client name disclosures and mandatory deliveries, but it didn't really touch the central bit the delayed disclosure timing, it

[16] Bharti Airtel Ltd., *Supra* note 11.
[17] Rajesh Bhatia v. SEBI, *supra* note 12.

stayed where it was. To fix this structural disadvantage without messing up the original purpose of block deals, SEBI could add a few practical and balanced policy tweaks. First, SEBI has to deal with the post-market disclosure rule under Paragraph 2.2.4. Keeping retail investors in the dark until after market hours makes them face sudden price jumps the next morning, which is not great. Instead of pushing the disclosure only when trading ends, SEBI could allow a short, timed release window during live market time, like a mandatory 15 minute, or 30 minute delay. Full, instant disclosure might trigger immediate panic and defeat the "block" logic, but a short pause gives institutions a reasonable runway to complete their multi-leg transactions while still letting retail investors see the trade and respond on the same trading day. Second, SEBI needs to fix the manipulation risks around the Volume Weighted Average Price reference rate which in practice can be gamed, kind of obvious, but still not fully handled. As exposed in the IIFL Wealth Management case, the fixed 15-minute afternoon calculation window between 1:45 PM and 2:00 PM is vulnerable to artificial price pushing, where someone nudges prices so the final reference comes out "cleaner" for them. The October 2025[18] circular kept this static window, and that along with the wider ±3% price band gives bad actors even more space to maneuver around. SEBI can solve this pretty easily by randomizing the calculation time within a broader 45-minute bracket, then automatically choosing an unpredictable 15-minute slot. With randomization the targeted price manipulation becomes mathematically non predictable, so a known loophole basically gets shut down without needing some complicated surveillance upgrades that take forever. Third, the regulator also needs to buffer the market against the wider ±3% execution band. Sure, this added flexibility helps big funds execute large trades, but it also exposes retail investors to much stronger price whiplash the next morning. To balance that, SEBI should introduce a temporary cooling-off circuit filter during the first 15 minutes of the next morning trading session whenever a block deal is executed near the extreme edges of the price band. This guardrail, simple though it is, can block the sudden overnight shock effect so ordinary investors have time to digest the block deal information calmly instead of getting wiped out by automated stop loss cascades, all at once. Finally, there's a clear need to update how we view Prohibition of Insider Trading regulations. As established in SEBI v. Abhijit Rajan[19], courts strictly penalize individual insiders who misuse private information for personal gain. But under Proviso (ii) to Regulation 4(1) of the PIT Regulations[20], block deals get a complete pass just because both institutional counterparties happen to share the same

[18] SEBI, *supra* note 10.
[19] Securities and Exchange Board of India v. Abhijit Rajan, *supra* note 13.
[20] *Supra note 8.*

information , or at least that's how it is treated. SEBI should issue a regulatory clarification that recognizes structural information disadvantage. The law should clarify that while institutional players can execute block deals legally, the resulting trade data must still be formally treated as material, price-sensitive information that needs time-bound protection for the broader public, so it bridges buyer-seller fairness with market-wide integrity, in a way that actually holds. In conclusion, the growth of the Indian capital market leans heavily on the trust of millions of everyday retail investors. A market framework cannot really claim to be fair if it legally safeguards an information delay between big institutions and regular people. The Block Deal Window was created to prevent sudden market disruption, but as this paper shows, keeping the trade hidden until after hours creates a systemic disadvantage that no current legal remedy can properly mend. While the October 8, 2025 circular made progress on client transparency and higher trade limits, it completely dodged the central issue of disclosure timing. If SEBI's main duty under Section 11(1) of the SEBI Act[21] is to protect investor interests, then retail investors cannot be left behind. By fixing disclosure timing, randomizing the calculation windows, and updating legal jurisprudence to cover structural gaps, SEBI can finally ensure that market convenience for big institutions doesn't come at the cost of basic fairness for retail investors.

[21] SEBI Act 1992 § 11(1).