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# **A Study on the Securities and Exchange Board of India (SEBI) and the Evolving Legal Framework against Insider Trading and Market Manipulation in India**

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## **ABSTRACT**

*This paper discusses the changing regulatory and jurisprudential landscape of insider trading in India, with a core focus on the metamorphosis of SEBI's enforcement paradigm under the SEBI (Prohibition of Insider Trading) Regulations, 2015. Insider trading and market manipulation are perceived as two of the most critical threats to the stability, fairness, and credibility of the Indian securities market. The regulatory architecture anchored by the Securities and Exchange Board of India has been designed to protect investor interest and ensure the integrity of the market by combining statutory, regulatory, and enforcement mechanisms. The twin key frameworks-the SEBI (Prohibition of Insider Trading) Regulations, 2015 (the PIT Regulations), and the SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (the PFUTP Regulations)-form the central pillars of India's battle against information-based and conduct-based market abuse. The objectives of the study will be to examine the basic regulatory structure of the Indian securities market and to analyze the evolution, scope, and interrelationship of the PIT Regulations, 2015, and the PFUTP Regulations, 2003. Based on the foundational structure of the Indian securities market, this discussion emphasizes how SEBI is constantly narrowing down the meaning of "insiders" and broadening the ambit of Unpublished Price-Sensitive*

*Information and enhancing corporate obligations related to governance. More contemporary changes, through defined terms of "connected persons" and "immediate relatives," reflect an increased focus on networks beyond relational and access networks that are linked to flows of information. Concomitant with increased market abuse complexity, the interplay of SEBI guidelines and judicial intervention is strengthening the Indian securities market.*

## KEYWORDS

*Securities Market, Market Manipulation, Insider Trading, Securities and Exchange Board of India, Whistle-blower Mechanism.*

## INTRODUCTION

The integrity of the Indian securities market is maintained by the Securities and Exchange Board of India, which was established under the SEBI Act of 1992. SEBI's mandate is upon three fronts- protection, development, and regulation of the market. Protection of the investor is performed by securing that the investors get complete and fair information punctually. The statutory powers accorded upon SEBI by the 1992 Act enable it to establish special mechanisms for preventing abuse in the securities market.

In ensuring a "fair" market, SEBI relies heavily on two key regulatory pillars:

- **SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT)**, which aim at information asymmetry by preventing the misuse of Unpublished Price Sensitive Information (UPSI); and
- **SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003** commonly known as PFUTP that prohibit manipulative, deceptive, and unfair market conduct.

Whereas the PIT Regulations address trading on the basis of confidential non-public information-the insider trading laws that aim to ensure a level playing field, PFUTP deals with conduct-based distortion such as the manipulation of markets, front-running, and false trading volumes. Together, PIT and PFUTP set up the structural platform for market integrity. Legally separate, PIT and PFUTP are increasingly being used together in modern enforcement. More complex schemes may also involve insider dealings and other manipulation elements, such as receiving UPSI, which is an infringement of PIT, and using mule accounts,

again violating PFUTP, all designed to conceal the existence of trade patterns. There is obviously an immediate need for continually developing both regimes in order to properly enforce both information offenses and conduct offenses in any given scheme.

## OBJECTIVES

- To analyse the structural regulation of the Indian stock market.
- To analyse the evolution, scope, and interplay of the PIT Regulations, 2015, and PFUTP Regulations, 2003.
- To Analysis of the recent amendments and structural changes brought about by SEBI.
- To evaluate the impact of the joint evolution in the regulatory and judicial systems on the creation of a more resilient and effective enforcement regime.

## REVIEW OF LITERATURE

1. The Regulations formalise record-keeping, the concept of “legitimate purpose,” and board-approved policies for UPSI sharing measures central to corporate accountability. They also set out disclosure regimes and trading restrictions to limit information asymmetry. The instrument is the statutory baseline against which subsequent amendments and judicial interpretations operate. This source provides the primary statutory text and amendment history used throughout this research. (***Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015***)
2. The June 28, 2024 amendment explicitly addresses structural fraud and clarifies prohibitions on deceptive trading practices, strengthening SEBI’s enforcement toolkit. The updated regulation emphasises conduct-based restrictions — including provisions targeting coordinated trading, artificial volumes, and front-running. This regulatory evolution shows SEBI’s pivot from rule-making to more operational clarity on prohibited practices. (***The PFUTP Regulations, 2003***)
3. The Committee advocated an informant mechanism with immunities and monetary incentives to uncover covert market abuses. Its recommendations underpin later SEBI steps to mandate internal compliance, whistleblower safeguards, and broader investigatory reach. This report functions as a policy bridge between observed market

failings and later regulatory reforms.<sup>1</sup> (***The Committee on Fair Market Conduct, 2018***)

4. The paper examines how the Regulations address information asymmetry and discusses gaps where corporate practices or technological communication channels can enable leakages. It argues for stronger proactive corporate controls and more effective whistleblower protections to make enforcement practicable. This academic analysis provides empirical and doctrinal commentary useful for assessing regulatory impact. (***Suraj Prakash, 2021***)
5. Commentators trace how this requirement shifted the enforcement paradigm from a near-strict-liability stance toward an intent-sensitive approach, complicating SEBI's civil-enforcement strategy. The literature debates whether motive should be a threshold for liability or a factor in sanctioning, highlighting tension between judicial safeguards and regulatory deterrence. This case serves as a jurisprudential touchstone in debates on standard of proof for PIT offences. (***Himanshi Garg, 2023***)
6. Commentaries explain how Section 28A functions to render unpaid penalties subject to statutory interest and how courts have treated adjudication orders as enforceable demand notices. This literature underscores the judiciary's complementary role in preserving the deterrent and recovery efficacy of regulatory penalties. It is central to understanding post-adjudication financial remedies. (***Rao, P., & Menon, R., 2021***)
7. The author examines how PIT rules affect due-diligence processes, the sharing of UPSI during transactions, and the obligations to define "legitimate purpose." They point to operational difficulties in M&A where sensitive data must be shared with many external advisors and how board-approved policies and electronic logs mitigate regulatory risk. This body of work illuminates tensions between commercial necessities and regulatory compliance, offering case studies and best-practice protocols relevant to corporate governance reforms. (***Rajat Sethi, Sudip Mahapatra, 2016***)
8. The literature assesses the legal protection mechanisms (job protection, anonymity, monetary rewards) and debates the need for legislative backing to permit stronger investigatory powers such as targeted interception. These works are key to understanding how information flows and protections can materially impact investigatory outcomes. (***Anushka Garg and Keshav Malpani, 2020***)

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<sup>1</sup> SEBI, *Report of the Committee on Fair Market Conduct* (2018), chaired by T.K. Viswanathan

9. The study argues that despite expanded definitions of insiders, enforcement failures often stem from the lack of direct proof and over-reliance on circumstantial evidence. It highlights how global regulators adopt presumptive models to balance investor protection and due-process rights. The paper provides comparative insights useful for evaluating India's reliance on corporate governance mechanisms and whistleblower interventions. **(Singh, 2019)**

10. The author evaluates how listed Indian companies implement internal controls to manage UPSI and comply with PIT Regulations. Through surveys of compliance officers, it finds significant improvement in electronic record-keeping, insider-list maintenance, and board-approved policies on legitimate purpose. However, it notes continued weaknesses in training, whistleblower safety, and surveillance of temporary insiders. This research is essential for understanding the governance-driven compliance model emphasised by SEBI. **(Turner, 2020)**

## **1. EVOLUTION OF THE INSIDER TRADING PROHIBITION**

### **(PIT REGULATIONS, 2015)**

The PIT framework has been refined since its 1992 origin, culminating in the 2015 regulations and successive amendments that address technological and market-based developments.

#### ***A. Broadening the Scope of Insider Status and UPSI***

There has to be effective regulation of insider trading with clear definitions of UPSI and “insiders.” The regulatory regime distinguishes between unpublished and price-sensitive, material information. SEBI has gradually broadened the scope of “Connected Persons”<sup>2</sup> and “Insiders,” who are those with direct or indirect access to UPSI - company executives, directors, third-party service providers, as well as those in self-regulating organizations. These definitions have recently been tightened (December 2024) to include, for example, “immediate relatives,” to strictly avoid proxy-trading by using family members.<sup>3</sup>

#### ***B. Strengthening Corporate Governance and Internal Controls***

SEBI has transferred the onus of initial compliance on listed

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<sup>2</sup> SEBI (Prohibition of Insider Trading) Regulations, 2015, Gazette Notification No. LAD-NRO/GN/2014-15/21/85.

<sup>3</sup> (PIT) (Amendment) Regulations, 2018 & 2024, Gazette Notifications expanding “connected persons” and clarifying “immediate relatives.”

entities. Listed entities are required to promote in-house controls, training of personnel, and policies on dealing with UPSI information. A documented "legitimate purpose" policy is required before any UPSI distribution is done. Companies must also maintain electronic records listing every person or entity with whom UPSI is shared.<sup>4</sup> This transforms best practices into enforceable means for compliance, making the process of gathering evidence for the regulator much simpler, especially in the tracing of information flows.

### ***C. Institutionalizing Information Sharing: The Whistleblower Mechanism***

In an effort to mitigate the issue of secretive information sharing, SEBI has institutionalized the use of the whistleblower or informer system, which was informed by the recommendations of the Committee on Fair Market Conduct. This allows SEBI to extend immunity or reduced punishment for those who come out openly with the truth. Protections include immunity from termination, demotion, or harassment for filing a Violation Information Disclosure Form (VIDF), with monetary rewards sourced from the Investor Protection and Education Fund.<sup>5</sup> The recommendations also included the provision of similar powers to SEBI, like those of the Central Board of Direct Taxes, for interception of communication, thus recognizing that due to encryption of advanced communication, stricter investigative mechanisms were required.

## **2. THE BATTLE AGAINST MARKET MANIPULATION (PFUTP REGULATIONS, 2003)**

The PFUTP Regulations have evolved to address sophisticated market manipulation tactics, especially those designed to hide true beneficiaries behind complex structures.

### ***A. Addressing Structural Fraud: Mule Account Prohibition***

Manipulators often use mule accounts<sup>6</sup> to hide any connection to the source of funds and the trade that is actually carried out." Taking guidance from the Committee on Fair Market Conduct Report of 2018, SEBI finalized an update to the PFUTP Regulation in the year 2024 to explicitly delineate and ban "mule accounts".<sup>7</sup>

<sup>4</sup> PIT Regulations, 2015, Reg. 2(1)(g), defining Unpublished Price Sensitive Information; Reg. 2(1)(d), defining "insider" and "connected person."

<sup>5</sup> Informant Mechanism under PIT Regulations (2019), Reg. 7A; Introduction of Violation Information Disclosure Form (VIDF).

<sup>6</sup> PFUTP (Amendment) Regulations, 2024, introducing formal definition of "mule accounts" under Reg. 2(1)(oa).

<sup>7</sup> SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, Gazette Notification No. LAD-NRO/

As outlined under Regulation 4(1), any trades carried out through 'mule accounts,' which are those that involve "trading or linked accounts which can be controlled by any person different from the apparent legal owner," are deemed to be illegal. With its emphasis based on control, it hits the root of any financial crime network being created through such instances.<sup>8</sup>

### ***B. Defining and Prosecuting Manipulative Practices***

PFUTP forbids actions that intentionally distort market prices or deceive investors, like the manipulation of price, inflation of volume, and front running. The complexity in enforcement comes from judicial interpretation on the issue of intention, especially the term "knowingly". SEBI, on one side, expands the scope of regulation, but on the other side, it also provides protection for bona fide transactions, recognizing the need for the manipulative act to prove lack of good faith.<sup>9</sup>

## **3. JURISPRUDENTIAL SHIFTS: IMPACT OF LANDMARK RULINGS**

Recent Supreme Court decisions have influenced enforcement strategy, especially regarding insider trading standards and recovery mechanisms.

### ***A. The Motive Conundrum: SEBI v. Abhijit Rajan***

In this historic case, it was held that proof of motive of financial gain is a necessary ingredient in supporting insider trading allegations on the pre-existing 1992 Regulations. This is a move away from a strict liability framework that was hitherto adopted by SEBI, which may result in delayed enforcement of this law. This may demonstrate a conflict between the judiciary's emphasis on intent and SEBI's goal of deterrence of insider trading on a civil enforcement front.<sup>10</sup>

### ***B. Fortifying Enforcement and Recovery Mechanisms***

Conversely, the judiciary has strengthened SEBI's recovery powers. In **Jaykishor Chaturvedi & Others v. SEBI (2025)**,<sup>11</sup> the Supreme Court affirmed SEBI's recoveries for compensatory

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GN/2003-04/06/12980.

<sup>8</sup> Recommendations on Surveillance and Data Interception Capabilities, Committee on Fair Market Conduct (2018).

<sup>9</sup> PFUTP Regulations, 2003, Reg. 4, prohibiting manipulative, fraudulent, and deceptive trade practices.

<sup>10</sup> *SEBI v. Abhijit Rajan*, Civil Appeal No. 563 of 2022 (Supreme Court of India).

<sup>11</sup> *Jaykishor Chaturvedi & Others v. SEBI*, Civil Appeal No. 5525 of 2025 (Supreme Court of India).



interest on penalties from the date due, regardless of the silence in the orders passed in the adjudication cases. The Court held the accrual of interest automatically under Section 28A SEBI Act and thus prevented manipulators from devaluing penalties through the passage of time. The judiciary's support for the integrity of the structure is evident in pre-existing decisions supporting Section 11AA on Collective Investment Schemes and in pet cases relating to PACL and DPI.<sup>12</sup>

### ***C. The Jane Street Crackdown (2025)***

"The gravity of algorithmic market abuse" was illustrated in SEBI's July 2025 interim order against four persons linked to the Jane Street Group. "SEBI has alleged that the group used their 'two-patch playbook' to manipulate the Bank Nifty index over 18 derivatives expiry dates between January 2023 and March 2025. Patch I:" The group placed heavy buy orders in the major Bank Nifty constituents, including SBI, Kotak Bank, and Axis Bank, at times contributing more than 20% to total market-wide traded volume. This drove their prices higher and, in turn, lifted the overall index, which was simultaneously used to lock in massive negative short options positions. Patch II: It covered this strategy by undertaking heavy sell orders to push the index's prices lower just prior to expiry, thereby capitalizing on the increased market value of the short options."

The SEBI held that the above-mentioned technique was a carefully crafted device to affect the settlement prices. As an immediate measure, SEBI ordered disgorgement of ₹4,843.57 crore into an escrow account and barred the entities from accessing the securities market. The action establishes a critical precedent: even highly technical, algorithm-driven strategies that manipulate structural market features fall squarely within the ambit of PFUTP, regardless of the superficial legality of the individual trades.

## **4. COMPARATIVE ANALYSIS**

Overall, the Indian regulatory experience illustrates the worldwide trend of increasingly tighter regulation. Comparatively speaking, the United Kingdom's regulatory system, through the Financial Services and Markets Act: "Market abuse is defined widely and covers both insider dealing and market manipulation." The crucial difference is that these provisions do not require a fiduciary relationship and also ban the dealing in inside information obtained in any manner whatsoever. The zeal of SEBI in widening

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<sup>12</sup> SEBI, *Order in the Matter of PACL Ltd.*, WTM/SR/SEBI/2016; Recovery proceedings initiated under § 28A.

the scope of 'connected persons' and targeting the prosecution of the trades on UPSI obtained from an external source, as seen in the IEX case, shows that essentially this regulatory trend also moves towards the possession principle standard, as in the UK system. This regulatory trend is further made complex because of the motive principle introduced by the Supreme Court in insider trading matters.

## CONCLUSION AND RECOMMENDATIONS

The Indian securities market has witnessed an important regulatory metamorphosis, as SEBI has been beefing up its two-pronged approach in enforcing PIT and PFUTP. The PFUTP amendments, especially the ban on 'mule accounts,' help combat advanced forms of structural manipulation. At the same time, the increasing use of digital forensics and whistleblower reporting by SEBI indicates proactive and knowledge-based regulatory enforcement. The judicial pronouncements in the cases of Abhijit Rajan and Jaykishor Chaturvedi. GUIV The ever-increasing sophistication in securities market abuses is nonetheless balanced by the enhanced regulatory emphasis on increased SEBI's use of 'digital forensics,' 'whistleblower reporting,' and stronger 'surveillance' indicates an important proactive and knowledge-based regulatory approach.<sup>13</sup> The judicial pronouncement in the cases of 'Abhijit Rajan' and 'Chaturvedi' GUIV. Nonetheless, the increasing sophistication in securities market abuses is offset by the increased SEBI emphasis on increased 'transparency,' 'accountability,' and 'protection' for securities market participants. The 'regulatory interconnectedness' indicates a more mature regulatory environment. Nonetheless, the strengthening SEBI emphasis on 'PFUTP,' 'digital forensics,' and 'whistleblower reporting,' and the judicial 'finality' in cases like 'Abhijit Rajan' and 'Chaturvedi' GUIV indicates increased fortification in the Indian securities market.<sup>14</sup>

## RECOMMENDATIONS

- 1. Reinforce the Strict Liability Paradigm for PIT Violations:** The legislature needs to clarify or modify the PIT Regulations to specifically express that the motive for financial gain is not an element determining the presence of an insider trade violation, especially in civil proceedings before SEBI. This move can also mitigate the resultant complexifying effect of the decision in the case of Abhijit

<sup>13</sup> Umakanth Varottil, "Insider Trading and the Role of Motive," *Indian Corporate Law Review* (2023).

<sup>14</sup> SEBI, *Order in the Matter of M/s. Dhanraj Phoolchand Investment (DPI)*, 2019, SEBI Recovery Proceedings.

Rajan on the civil enforcement system of SEBI, and it is also necessary that motive is codified only in the assessment of penalty quantum and charging criminal offenses and is not an element deciding the presence of an insider trade violation.

2. **Mandate Inter-Regulatory UPSI Protocols:** The IEX insider trading case made it clear that material UPSI may emerge outside of SEBI's jurisdiction (such as through government or other market regulatory bodies like CERC). It is essential that SEBI, in consultation with the Ministry of Finance, requires all statutory or governmental bodies whose resolutions have any bearing on listed securities to comply with protocols of internal controls and e-logging similar to those required of listed entities by the PIT Regulations. This would fill an important enforcement lacuna regarding disclosure of external information leakages.
3. **Enhance Digital Forensics and Legal Powers:** Given the proven success of surveillance technology in spotting cases of index manipulation and social media scams, continuous investment in data analytics is needed. Further, the formal legislative power to intercept conversation details related to economic offenses, recommended for SEBI by earlier committees, needs to be enacted to bring the regulator at par with its international peers and agencies tackling sophisticated financial crime.

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