



# The Indian Journal for Research in Law and Management

Open Access Law Journal – Copyright © 2025

Editor-in-Chief – Dr. Muktai Deb Chavan; Publisher – Alden Vas; ISSN: 2583-9896

This is an Open Access article distributed under the terms of the Creative Commons Attribution-Non-Commercial-Share Alike 4.0 International (CC-BY-NC-SA 4.0) License, which permits unrestricted non-commercial use, distribution, and reproduction in any medium provided the original work is properly cited.

---

## INSIDER TRADING IN INDIA: HOW SEBI TRIES TO KEEP MARKETS FAIR

~ *Gauri Dangi*

### Introduction

Insider trading refers to the illegal trading of shares by using the confidential or non-public information of a company. In other words, buying or selling of shares of a company based on the information which has not been publicly disclosed yet is known as insider trading. It can be done by an insider or through information gained from an insider of the company.

Insiders include company directors, employees, lawyers, consultants, auditors, as well as anyone who has access to unpublished price-sensitive information of the company.<sup>1</sup>

### Understanding Insider Trading

Insider trading involves misuse of Unpublished Price-Sensitive Information (UPSI) for personal gain. The buying or selling of shares can be done to make profit or avoid loss after receiving UPSI. The information can be regarding a huge merger, or an upcoming loss. It is illegal because the use of such unpublished information by an insider is unfair to other investors who don't have access to such information.

### What is UPSI?

Unpublished Price-Sensitive Information refers to any confidential information about a company which is not yet made public, and if it becomes public it may affect the company's

---

<sup>1</sup> The SEBI (Prohibition of Insider Trading) Regulation Act, 2015.

share price. Therefore, if someone has access to such information before it is publicly disclosed, and uses it to make profit or avoid losses, it is unfair and illegal.<sup>2</sup>

UPSI include information like financial results- profits or losses, mergers, acquisitions, news about appointment or resignation of CEO, CFO or directors, major contracts, pending litigations, new product launches especially in pharma or tech companies, issuance of new shares or buyback of shares etc.

### **Legal Framework in India**

Following are the legal framework and provisions regarding insider trading in India:

1. The SEBI (Prohibition of Insider Trading) Regulation Act, 2015.
2. Key provisions under this Act include –
  - Prohibition on trading when in possession of UPSI.<sup>3</sup>
  - Requirement for listed companies to disclose information fairly and promptly.
  - Code of conduct and appointment of compliance officers for every listed company.<sup>4</sup>
  - SEBI's powers to investigate and impose penalties from 10 lakhs to 25 crore or three times the profit made out from insider trading activity, whichever is higher, under the SEBI Act, 1992.<sup>5</sup>

### **Famous Insider Trading Cases in India**

1. Zee Entertainment Enterprises Ltd. (ZEEL)  
SEBI found that three insiders had traded using UPSI. They were banned from securities market for two years and fined Rs. 30 lakhs each for violations.
2. Infosys Case (2017)<sup>6</sup>  
SEBI banned two individuals for one year from securities markets for doing insider trading in Infosys stock and ordered the disgorgement of Rs. 2.6 Crores in illegal gains.

---

<sup>2</sup> 'Pertinence and Problems of India's Insider Trading Laws', International Journal of Creative Research Thoughts (IJCRT), By- Shikhar Pathak, 1 January 2024, Volume 12 Issue 1, <https://www.ijcrt.org/papers/IJCRT2401799.pdf>.

<sup>3</sup> Regulation 4, The SEBI (Prohibition of Insider Trading) Regulation Act, 2015.

<sup>4</sup> Regulation 8, The SEBI (Prohibition of Insider Trading Act, 2015.

<sup>5</sup> Section 15G, The SEBI Act, 1992.

<sup>6</sup> [www.sebi.gov.in](http://www.sebi.gov.in).

## **SEBI's Role and Enforcement Mechanisms**

SEBI safeguards the investors by enforcing transparency and disclosure rules, restraining insider trading and taking action against unfair trade practices. It investigates violations or suspicious activities, conduct hearings, collect evidences, impose penalties etc. It bans and takes action against fraudulent activities.

SEBI monitors markets actively through various enforcement mechanisms:

1. It requires companies to disclose accurate and timely information to the public to enable them to make informed decisions.
2. It has powers to investigate and adjudicate cases of non-compliance.
3. It can impose penalties or ban from securities market for violations.
4. It has established whistleblower mechanisms to encourage people to report misconduct.

## **Coincidence or Insider Trading? How SEBI tells the difference**

Sometimes it may be a coincidence. Therefore, before taking any action, SEBI carefully checks whether the trader had access to UPSI. Here's how SEBI distinguishes insider trading from mere coincidence:

### **1. SEBI looks for a connection to the company**

It checks if the trader works in the company or is related to someone who does. And if the trader had access to unpublished price-sensitive information.

### **2. SEBI analyses the timing and pattern of traders**

If the someone regularly trades in that stock, it might be a coincidence. But if suddenly starts trading large amounts just before a major announcement and is benefitted unusually, it can be insider trading.

### **3. SEBI checks communications and relationships**

It reviews phone records, mails and messages with legal permission. And checks if the trader has close relation with an insider.

### **4. SEBI gives the chance to defend**

The rule of *Audi alteram partem* prevails. Before punishing anyone, SEBI sends show cause notice, asking them to justify their trade.

## **5. Decision by an independent authority**

After all the investigation and evidences, the case goes to Adjudicating Officer or Securities Appellate Tribunal (SAT) that reviews everything before punishment.

In *Balram Garg vs. SEBI*, the Supreme Court held that evidence must be conclusive and not just based on presumptions of proximity.<sup>7</sup>

## **Challenges in Tackling Insider Trading**

Following are the challenges in tackling insider trading:

1. Reliance on circumstantial evidences.
2. Difficulty in proving intent and possession of UPSI.<sup>8</sup>
3. Insiders involved in complex networks and insider trading through relatives or friends.
4. Limited evidences.
5. Evolving technology and market speed makes it difficult to trace suspicious trades.
6. Weak corporate governance and compliance culture.
7. Balancing fairness and overreach to ensure innocent investors are not punished for genuine coincidences.

## **Conclusion**

Insider trading undermines the very foundation of fair market. SEBI enforces transparency and has taken various steps over the years to curb insider trading. However, the challenge lies in proving the intent and tracing the hidden connections. Insiders are also involved in indirect trading through relatives or friends. Tracing the complex networks of insiders is a very difficult task for SEBI. To effectively enforce transparency and control insider trading, there is a need to strengthen corporate governance, bring awareness among the employees and directors, and using advanced surveillance technologies to monitor securities market efficiently.

---

<sup>7</sup> 'Insider Trading: What must the Regulator Prove? *Balram Garg v. SEBI*: A case comment', SCC Times, By- Bhumika Indulia, 3 August 2022, <https://www.sconline.com/blog/post/2022/08/03/insider-trading-what-must-the-regulator-prove-balram-garg-v-sebi-a-case-comment/>.

<sup>8</sup> 'SEBI (Prohibition of Insider Trading) Regulations, 2015: An Understanding of Insider Trading Regulations in India and Major Obstacles in its Implementation', SCC Times, By- Bhumika Indulia, 14 September 2023, <https://www.sconline.com/blog/post/2023/09/14/sebi-prohibition-of-insider-trading-regulations-2015-major-obstacles-implementation/>.