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INSIDER TRADING IN INDIA: REGULATION AND INVESTOR PROTECTION: *An Evaluation of the Effectiveness of the SEBI (Prohibition of Insider Trading) Regulations, 2015*

~ Sreeja Chakraborty

ABSTRACT

Insider trading, the trading of securities by persons who possess unpublished price sensitive information (UPSI), undermines the equality of access and the trust on which securities markets depend. In India, it is regulated mainly through the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, which are enforced by the Securities and Exchange Board of India (SEBI) under the SEBI Act, 1992. This paper asks to what extent the existing framework is effective in preventing insider trading and protecting investor interests. It traces the evolution of the law from the 1992 Regulations to the amendments of 2024 and 2025, analyses the key concepts of insider, connected person and UPSI, and examines the disclosure, compliance and whistle-blower mechanisms. It then studies SEBI's enforcement powers and the judicial approach, including the Supreme Court's decision in *SEBI v. Abhijit Rajan* (2022) and its recent re-examination in *SEBI v. Rajeev Vasant Sheth* (2026), and compares the Indian position with that of the United States, the European Union and the United Kingdom. The paper argues that the framework is comprehensive and increasingly sophisticated on paper, but that its effectiveness is limited by evidentiary difficulties in detection, uncertainty in judicial interpretation, and the absence of a direct compensation mechanism for affected investors. It concludes with targeted suggestions for reform.

Keywords: *insider trading; unpublished price sensitive information; SEBI; investor protection; securities regulation*

I. INTRODUCTION

Securities markets work on the premise that investors compete on broadly equal terms. Prices reflect the information that is available to the public, and those who trade on research, analysis and judgment accept that others may read the same facts differently. This premise is damaged

when a person who holds confidential, price-moving information about a company trades before that information reaches the public. Such trading is commonly called insider trading, and in India it is addressed through the concept of unpublished price sensitive information (UPSI).

The harm is easy to see. An ordinary investor who sells shares a day before a favourable announcement, or buys them a day before an adverse one, has no means of knowing that the other side of the trade holds an advantage. If such cases become common, investors may conclude that the market is tilted in favour of insiders, and may stay away or demand a premium for taking part. The concern is greater in a market where retail participation has grown considerably in recent years and where most investors depend on disclosed information alone.

The legal response in India is the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 (the PIT Regulations), made under the Securities and Exchange Board of India Act, 1992 (the SEBI Act).[1] The PIT Regulations replaced the 1992 Regulations and have since been amended several times, most recently in 2024 and 2025. They prohibit trading while in possession of UPSI, restrict the communication of UPSI, require disclosures by promoters, directors and designated persons, and place compliance duties on listed companies and intermediaries.

This paper examines the research question: *"To what extent is the existing regulatory framework governing insider trading in India effective in preventing insider trading and protecting investor interests in the securities market?"* Its objectives are fourfold: to explain how the legal framework developed; to analyse its main provisions; to assess how it has been enforced and interpreted; and to identify gaps and suggest improvements.

The study is doctrinal. It relies on primary sources, namely the SEBI Act, the PIT Regulations and decisions of the Supreme Court of India, and on secondary sources such as committee reports, commentary and academic writing. A comparative section looks at the United States, the European Union and the United Kingdom. The paper does not use empirical enforcement data, so its conclusions about effectiveness are qualitative. The PIT Regulations are discussed

[1] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, No. LAD-NRO/GN/2014-15/21/85, Gazette of India, pt. III, sec. 4 (Jan. 15, 2015) (India); Securities and Exchange Board of India Act, 1992, §§ 12A(d)–(e), 30, No. 15 of 1992 (India). The consolidated text, amended up to March 12, 2025, is available at Securities and Exchange Board of India, *Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015* (Mar. 12, 2025), https://www.sebi.gov.in/sebi_data/attachdocs/aug-2026/1786963663321.pdf.

as amended up to March 12, 2025, which, as far as the author could verify, is the latest amendment at the time of writing in October 2026.

The paper proceeds as follows. Part II sets out the conceptual foundations. Part III traces the evolution of the law. Part IV analyses the core provisions of the PIT Regulations, and Part V examines the disclosure, compliance and whistle-blower mechanisms. Part VI deals with enforcement and Part VII with judicial interpretation. Part VIII offers a comparative perspective, Part IX discusses challenges in detection, and Part X assesses effectiveness. Part XI makes suggestions, and Part XII concludes.

II. CONCEPTUAL FOUNDATIONS

A. Meaning and Rationale

In its simplest form, insider trading means dealing in securities while holding material information that the public does not have. It is not an offence merely to be a director, an employee or an adviser who trades in the securities of a company. Trading becomes unlawful when the person trades on the strength of confidential information, or, as Indian law now frames it, while in possession of UPSI without falling within a recognised defence.

Three main reasons are given for prohibiting the practice. The first is fairness: investors should not have to compete against someone who holds an advantage that they could not have obtained by effort or skill. The second is market integrity: if prices are seen to be driven by privileged information, the market loses credibility as a place where capital is allocated efficiently. The third is the protection of confidential corporate information, which belongs to the company and should be used only for the company's purposes.

The practice also has defenders. The best-known is Henry Manne, who argued that insider trading moves prices towards their true value faster and rewards the managers who generate valuable information.[2] Critics reply that the argument ignores the cost to other investors, who may trade at a worse price or may withdraw, and that it could encourage managers to delay disclosure or time it for personal benefit. Indian law has clearly sided with the fairness and integrity rationales. The PIT Regulations treat information parity as the goal, and the notes to the Regulations repeatedly stress equal access to information.[3]

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[2] Henry G. Manne, *Insider Trading and the Stock Market* (1966).

[3] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 2(1)(e) note (India).

B. Possession and Use

A basic question in any regime is whether liability depends on the insider having *used* the information or simply having *possessed* it when trading. The Indian Regulations lean towards possession. Regulation 4(1) prohibits an insider from trading while in possession of UPSI, and the accompanying explanation presumes that a trade made by a person who held UPSI was motivated by it.[4] The insider may rebut the presumption only by proving one of the circumstances listed in the proviso. This choice makes enforcement easier, because the regulator does not need to prove the insider's state of mind. As Parts VII and X show, it is also the source of much of the debate about the fairness and workability of the law.

C. Insider Trading and the Protection of Investors

The protection of investors is a statutory duty of SEBI, whose function under the SEBI Act is to protect the interests of investors in securities and to promote the development of, and regulate, the securities market.[5] Insider trading engages this duty in two ways. It harms individual investors directly, because those who trade against an informed insider do so at a price that does not reflect what the insider knows. It also harms investors collectively, because uninformed traders who suspect that insiders are active may demand better terms or reduce their participation, which makes capital more expensive for companies and the market less liquid. A framework for insider trading must therefore be judged both by its ability to deter wrongdoing and by its effect on investor confidence, and these two measures are used in Part X.

III. EVOLUTION OF THE REGULATORY FRAMEWORK

A. The 1992 Regulations and the 2002 Amendments

SEBI first made insider trading a regulatory matter in 1992 with the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992.[6] These Regulations prohibited dealing in securities on the basis of price sensitive information and communicating such information, and they used the concepts of "insider", "connected person" and "price

[4] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 4(1) & explanation (India).

[5] Securities and Exchange Board of India Act, 1992, § 11(1), No. 15 of 1992 (India).

[6] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 (India) (repealed 2015).

sensitive information". Experience with the 1992 text showed gaps in definitions, investigation and compliance, and SEBI amended it in 2002 to tighten these areas.[7]

B. The 2015 Regulations

In 2013, SEBI set up a High Level Committee chaired by Justice N.K. Sodhi to review the 1992 Regulations.[8] On the basis of its recommendations, SEBI made the 2015 Regulations, which came into force on the one hundred and twentieth day from the date of their publication in the Official Gazette, that is, on May 15, 2015, and repealed the 1992 Regulations.[9] The new text made several important changes. It defined "generally available information" and "unpublished price sensitive information", treated anyone in possession of UPSI as an insider regardless of how the information was obtained, introduced a regime of legitimate purposes for communicating UPSI, and added trading plans as a way for insiders to trade without breaching the prohibition.

C. Refinement through Amendments

The Regulations have been amended repeatedly. Following the report of the Committee on Fair Market Conduct chaired by T.K. Viswanathan, the 2018 amendments, which took effect on April 1, 2019, required listed companies to frame a policy on legitimate purposes, introduced a structured digital database, added the presumption explanation to Regulation 4(1), and inserted Regulation 9A on institutional mechanisms to prevent insider trading.[10] In 2019, a new Chapter IIIA created an informant reward and protection scheme, effective December 26, 2019.[11] The 2020 amendments strengthened the structured digital database and required it to

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[7] Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2002 (India).

[8] Securities and Exchange Board of India, *Report of the High Level Committee to Review the SEBI (Prohibition of Insider Trading) Regulations, 1992* (Dec. 2013) (India).

[9] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, regs. 1(2), 12(1) (India).

[10] Securities and Exchange Board of India, *Report of the Committee on Fair Market Conduct* (Aug. 2017) (India); Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2018 (India) (effective Apr. 1, 2019).

[11] Securities and Exchange Board of India (Prohibition of Insider Trading) (Third Amendment) Regulations, 2019 (India) (effective Dec. 26, 2019).

be preserved for at least eight years.[12] A separate chapter on insider trading in units of mutual funds became effective on November 1, 2024.[13]

Three recent amendments deserve attention. The Second Amendment of 2024, effective September 24, 2024, made the trading plan mechanism more flexible by reducing the cool-off period from six months to 120 calendar days and by allowing an optional price limit.[14] The Third Amendment of 2024, effective December 6, 2024, rewrote the definition of connected person, replaced "immediate relative" with the wider term "relative" for deemed connected persons, and added persons sharing a household or residence with a connected person.[15] Finally, the 2025 amendment, effective June 10, 2025, widened the list of matters that count as UPSI and allowed information not emanating from within an organisation to be entered in the structured digital database within two calendar days.[16] The pattern is clear. The framework is being steadily widened and adjusted, and each change responds to a difficulty that had become visible in practice. Table 1 and Figure 1 summarise the principal instruments and their effective dates.

Table 1: Key Instruments Under the PIT Framework

Instrument	Effective date	Principal change
1992 Regulations	1992	First framework prohibiting dealing on price sensitive information and its communication
2002 amendments	2002	Tightened definitions, investigation and compliance provisions
2015 Regulations	May 15, 2015	Possession-based prohibition; UPSI and generally available information defined; legitimate purposes; trading plans
2018 amendments	Apr. 1, 2019	Legitimate purpose policy; structured digital database; presumption explanation in Reg. 4(1); Reg. 9A
Third Amendment, 2019	Dec. 26, 2019	Chapter IIIA on informant rewards and protection
2020 amendments	July 17, 2020	Structured digital database strengthened; eight-year preservation
Second Amendment, 2024	Sept. 24, 2024	Trading plan cool-off reduced from six months to 120 days; optional price limit
2022 amendments	Nov. 1, 2024	Chapter IIA on units of mutual funds

[12] Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2020 (India) (effective July 17, 2020).

[13] Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2022 (India) (effective Nov. 1, 2024).

[14] Securities and Exchange Board of India (Prohibition of Insider Trading) (Second Amendment) Regulations, 2024 (India) (effective Sept. 24, 2024).

[15] Securities and Exchange Board of India (Prohibition of Insider Trading) (Third Amendment) Regulations, 2024 (India) (effective Dec. 6, 2024).

[16] Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2025 (India) (effective June 10, 2025).

Instrument	Effective date	Principal change
Third Amendment, 2024	Dec. 6, 2024	Connected person redefined; "relative" replaces "immediate relative"; persons sharing a household added
2025 amendment	June 10, 2025	UPSI list widened; two-day entry for externally sourced information in the database

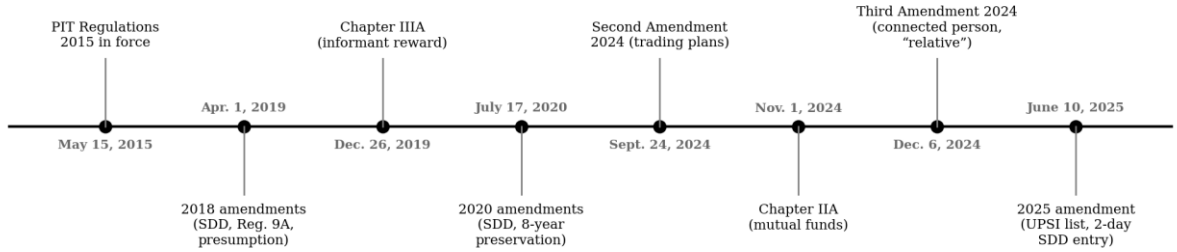


Figure 1: Effective Dates of Major Changes to the PIT Regulations Since 2015

IV. THE CORE PROVISIONS OF THE PIT REGULATIONS

A. Insider and Connected Person

Under Regulation 2(1)(g), an insider is any person who is a connected person or who is in possession of, or has access to, UPSI.[17] The definition is deliberately wide. The note to the Regulation explains that anyone who holds or can access UPSI is to be treated as an insider, whatever the manner in which the information was acquired, and that the burden of showing possession at the time of trading lies on the person making the charge.

A connected person is defined in Regulation 2(1)(d). After the Third Amendment of 2024, the first limb covers any person who is or has been, during the six months before the act concerned, associated with a company in any capacity and who thereby has, or is reasonably expected to have, access to UPSI. The second limb lists categories that are deemed to be connected persons unless the contrary is established, such as relatives of connected persons, holding, associate and subsidiary companies, intermediaries and their employees, bankers, and, since 2024, persons sharing a household with a connected person.[18] The presumption is rebuttable, which gives some protection to persons who have only a formal link with the company.

[17] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 2(1)(g) (India).

[18] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 2(1)(d), (hc) (India).

B. Unpublished Price Sensitive Information

UPSI is defined in Regulation 2(1)(n) as information relating to a company or its securities, directly or indirectly, that is not generally available and that, on becoming generally available, is likely to materially affect the price of the securities. The definition gives a non-exhaustive list of matters. The original list covered financial results, dividends, changes in capital structure, mergers, demergers, acquisitions, delistings, disposals and expansion of business, and changes in key managerial personnel.[19]

The 2025 amendment widened the list considerably. Sub-clauses (vi) to (xvi) now include changes in credit ratings other than ESG ratings, fund raising proposed to be undertaken, agreements that may affect management or control, fraud or defaults by the company or its promoters, directors or key managerial personnel, resolution plans and one-time settlements with lenders, insolvency proceedings, the initiation of forensic audits, regulatory or judicial action against the company or its directors, the outcome of litigation, guarantees given outside the normal course of business, and the grant, withdrawal or suspension of key licences. The award or termination of orders or contracts outside the normal course of business was added to sub-clause (iv), and the resignation of a statutory or secretarial auditor to sub-clause (v). Materiality is to be judged by reference to the guidelines in Schedule III of the SEBI Listing Obligations and Disclosure Requirements Regulations, 2015. The effect is to align the UPSI definition with the continuing disclosure obligations of listed companies and to reduce arguments about whether a particular event was price sensitive.

"Generally available information" means information accessible to the public on a non-discriminatory basis. Since an amendment made in 2024 through the takeover regulations, it does not include an unverified event or information reported in print or electronic media.[20] This addresses the argument that rumours in the press should be treated as public information.

C. Communication and Procurement of UPSI

Regulation 3(1) prohibits an insider from communicating, providing or allowing access to UPSI except in furtherance of legitimate purposes, performance of duties or discharge of legal obligations, and Regulation 3(2) prohibits any person from procuring UPSI from an insider except for the same purposes.[21] The Regulations seek to introduce a need-to-know culture.

[19] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 2(1)(n) (India).

[20] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 2(1)(e) (India).

[21] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 3(1)–(2) (India).

Since 2019, the board of every listed company must frame a policy for determining legitimate purposes as part of its code of fair disclosure and conduct. The illustrative explanation to the Regulation covers sharing in the ordinary course of business with partners, collaborators, lenders, customers, suppliers, merchant bankers, legal advisers, auditors and other advisers, provided that the sharing is not meant to evade the prohibitions. Any person who receives UPSI for a legitimate purpose becomes an insider and must be notified of the duty of confidentiality.[22]

Regulation 3(3) and (4) create a limited exception for transactions such as takeovers and mergers, where UPSI may be shared if the board is of the informed opinion that sharing is in the best interests of the company and, in transactions that do not trigger an open offer, the information is made generally available at least two trading days before the transaction. The parties must sign confidentiality and non-disclosure agreements and must not trade while in possession of the information.[23]

D. The Prohibition on Trading and the Defences

Regulation 4(1) provides that no insider shall trade in securities that are listed or proposed to be listed when in possession of UPSI. The explanation inserted in 2018 presumes that the trade was motivated by the information. The proviso allows the insider to prove innocence by showing circumstances such as an off-market inter-se transfer between insiders holding the same UPSI, a transaction through the block deal window, a transaction made under a statutory or regulatory obligation, the exercise of stock options at a predetermined price, a trade by a non-individual insider where Chinese walls kept the decision makers from the information, or a trade under a trading plan under Regulation 5.[24] Under Regulation 4(2), in the case of connected persons the onus of establishing that they were not in possession of UPSI lies on them, and in other cases the onus lies on SEBI.

The note to Regulation 4(1) states that the reasons for which a person trades, or the purposes to which the proceeds are applied, are not intended to be relevant to whether the regulation has been violated. As discussed in Part VII, this note has become central to the Supreme Court's most recent treatment of the subject.

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[22] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 3(2A)–(2B) (India).

[23] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 3(3)–(4) (India).

[24] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 4(1) & proviso (India).

E. Trading Plans

Regulation 5 allows an insider, who may be in possession of UPSI for long periods, to formulate a trading plan under which trades are executed on his behalf in the future. The plan must be presented to the compliance officer, who must review it for potential violations and approve or reject it within two trading days, and it must be disclosed publicly through the stock exchanges. It cannot begin trading earlier than 120 calendar days from public disclosure, cannot overlap with another plan, and must set out the value or number of securities, the nature of the trade, a specific date or a period not exceeding five consecutive trading days, and, optionally, a price limit within twenty per cent of the previous closing price. Once approved, the plan is irrevocable, save for permanent incapacity, bankruptcy or operation of law, and implementation cannot begin if the UPSI held at the time of formulation has not become generally available.[25] The mechanism recognises that trading by insiders is not always harmful, and gives them a lawful way to diversify or raise funds without having to prove a defence after the event.

F. Mutual Funds and Intermediaries

The Regulations also apply to trading in units of mutual funds under Chapter IIA, which became effective on November 1, 2024. For this purpose UPSI means information about a scheme that is not generally available and that is likely to materially affect its net asset value or the interests of unit holders, such as a change in accounting policy, a material change in the valuation of assets, restrictions on redemptions, the winding up of a scheme or the creation of a segregated portfolio. Asset management companies and trustees must adopt codes of conduct and internal controls, and designated persons and their immediate relatives are subject to reporting requirements. Transactions triggered by systematic investment plans registered at least two months earlier, and irrevocable trading plans, are among the recognised defences.[26] This chapter shows that the framework is intended to cover the whole market and not only the shares of listed companies.

[25] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 5(2)–(5) (India).

[26] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, regs. 5A–5H (India).

V. DISCLOSURE, COMPLIANCE AND WHISTLE-BLOWER MECHANISMS

A. Disclosure Requirements

Legal prohibitions alone cannot prevent insider trading, so the Regulations add duties of disclosure and compliance that make trading by insiders visible and traceable. Chapter III requires disclosures by the persons most likely to hold UPSI. A person who is appointed as a key managerial personnel or director, or who becomes a promoter or member of the promoter group, must disclose his holdings to the company within seven days. Thereafter, promoters, members of the promoter group, designated persons and directors must disclose trades to the company within two trading days if the traded value, in one transaction or a series of transactions over a calendar quarter, exceeds ten lakh rupees, and the company must notify the stock exchange within two trading days of receiving the disclosure.[27] The disclosures must also cover trades by immediate relatives and by any other person for whom the discloser takes trading decisions, and the company must retain the records for at least five years.[28] A listed company may also require other connected persons, such as consultants, to disclose their holdings and trades.

B. Codes of Fair Disclosure and Conduct

Regulation 8 requires the board of every listed company to publish a code of practices and procedures for fair disclosure of UPSI, following the principles in Schedule A, which include prompt public disclosure of UPSI, uniform and universal dissemination to avoid selective disclosure, and the designation of a chief investor relations officer.[29] Regulation 9 requires listed companies and intermediaries to adopt a code of conduct to regulate, monitor and report trading by designated persons and their immediate relatives, meeting the minimum standards in Schedule B for listed companies and Schedule C for intermediaries and fiduciaries. A compliance officer must be appointed to administer the code. Designated persons are chosen by role and access to UPSI, and must include the chief executive officer and employees up to

[27] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, regs. 7(1)(b), 7(2) (India).

[28] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 6(2)–(4) (India).

[29] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 8(1) & sched. A (India).

two levels below, promoters of listed companies, and support staff with access to UPSI such as IT and secretarial staff.[30]

C. Structured Digital Database and Internal Controls

The structured digital database is among the most significant compliance tools. Under Regulation 3(5), the board or head of the organisation must ensure that a database is maintained recording the nature of the UPSI and the names of those who shared it and those with whom it was shared, together with their Permanent Account Numbers or other identifiers. The database must be maintained internally with time stamping and audit trails to prevent tampering, and must be preserved for at least eight years after the completion of the relevant transactions.[31]

Regulation 9A requires the chief executive officer or managing director to put in place adequate and effective internal controls, including the identification of designated persons, confidentiality of UPSI, restrictions on communication and procurement, lists of those with whom UPSI is shared, and periodic process reviews. The audit committee must review compliance at least once in a financial year, and every listed company must have written policies for inquiring into leaks of UPSI and a whistle-blower policy.[32]

D. Informant Reward and Protection

Chapter IIIA, inserted in 2019, adds an external check. An informant who voluntarily gives SEBI original information about a violation of insider trading laws may be declared eligible for a reward of ten per cent of the monetary sanctions, subject to a ceiling of ten crore rupees. An interim reward of up to one crore rupees may be granted when the final order is issued. The identity of the informant is to be held in confidence, employers must not retaliate against employees who file the prescribed form, and agreements that restrict a person from approaching SEBI are void. Information is treated as timely only if not more than three years have passed since the first alleged violating trade, and rewards are not available to persons who are themselves obliged to report, such as compliance officers. Rewards are paid from the Investor Protection and Education Fund created under section 11 of the SEBI Act, and the

[30] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 9(1), (3)–(4) & scheds. B–C (India).

[31] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 3(5)–(6) (India).

[32] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 9A(1)–(2), (4)–(6) (India).

Regulations make clear that an informant is not given any amnesty for his own violations.[33] The scheme thus recognises that the best evidence of leaks often lies with people inside the organisation, who face a real personal cost in coming forward.

Table 2 collects the main time limits and duties discussed in this Part.

Table 2: Principal Disclosure and Compliance Obligations

Obligation	Who must comply	Time limit or standard	Regulation
Initial disclosure of holdings	Key managerial personnel, directors, promoters and promoter group members, on appointment or on becoming one	Within seven days	7(1)(b)
Continual disclosure of trades	Promoters, promoter group members, designated persons and directors	Within two trading days if traded value exceeds ₹10 lakh in a calendar quarter	7(2)(a)
Notice to stock exchange	Listed company	Within two trading days of receiving the disclosure	7(2)(b)
Retention of disclosures	Company	At least five years	6(4)
Structured digital database	Board or head of the organisation	Preserved at least eight years; externally sourced entries within two calendar days	3(5)–(6)
Trading plan approval	Compliance officer	Approve or reject within two trading days; 120-day cool-off before trading	5(2), 5(5)
Review of compliance	Audit committee	At least once each financial year	9A(4)

VI. ENFORCEMENT BY SEBI

A. Investigation, Directions and Penalties

The substantive prohibitions in the PIT Regulations are enforced through the powers in the SEBI Act. Regulation 10 of the PIT Regulations states that any contravention shall be dealt with by SEBI in accordance with the Act.[34] SEBI may investigate under section 11C, issue directions under section 11B, including directions to disgorge unlawful gains and to restrain a person from accessing the securities market, and appoint adjudicating officers who may impose monetary penalties under section 15-I.[35]

[33] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, regs. 7A–7M (India).

[34] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 10 (India).

[35] Securities and Exchange Board of India Act, 1992, §§ 11B, 11C, 15-I, No. 15 of 1992 (India).

The central penalty provision is section 15G. An insider who deals in securities on the basis of UPSI, or who communicates or counsels on it, is liable to a penalty of not less than ten lakh rupees which may extend to twenty-five crore rupees or three times the profits made, whichever is higher.[36] In addition, section 24 provides for criminal prosecution, with imprisonment for up to ten years, a fine of up to twenty-five crore rupees, or both.[37] The penalty linked to profits is a sensible design because it removes the incentive to trade, while the criminal provision signals that the most serious cases may be treated as crimes.

B. Settlement and Appeals

SEBI may also settle proceedings, including some insider trading matters, under the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018, which allow a person to settle without admitting or denying the findings on payment of an amount and compliance with other terms.[38] The informant provisions make a specific link: an informant who is liable to enforcement action may apply for settlement, but no amnesty is available under the Regulations.[39]

A person aggrieved by an order of SEBI or an adjudicating officer may appeal to the Securities Appellate Tribunal under section 15T of the SEBI Act, and from the Tribunal to the Supreme Court on a question of law under section 15Z.[40] This three-tier structure gives due process, but as Part IX discusses, it also lengthens the time between the trade and the final outcome.

C. Guidance and Rule-Making

SEBI also has a continuing power to issue guidance notes and circulars to remove difficulties in the interpretation or application of the Regulations, provided that where a direction is given in a specific case, the persons concerned are heard and reasons are recorded.[41] This power has practical importance. It allows SEBI to respond to uncertainty, such as the scope of legitimate purposes, without waiting for formal amendment.

Figure 2 shows how these powers fit together, from detection to appeal.

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[36] Securities and Exchange Board of India Act, 1992, § 15G, No. 15 of 1992 (India).

[37] Securities and Exchange Board of India Act, 1992, § 24, No. 15 of 1992 (India).

[38] Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 (India).

[39] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 7K (India).

[40] Securities and Exchange Board of India Act, 1992, §§ 15T, 15Z, No. 15 of 1992 (India).

[41] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 11(1) (India).

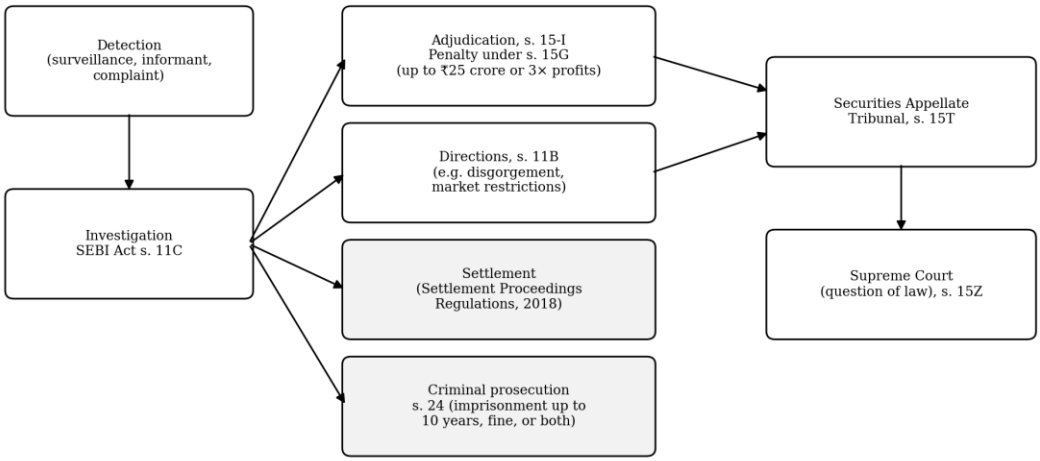


Figure 2: SEBI's Enforcement Pathway for Insider Trading

VII. JUDICIAL INTERPRETATION

A. Standard of Proof and Nature of Liability

Two decisions of the Supreme Court frame the approach to proof in SEBI proceedings. In *SEBI v. Shriram Mutual Fund*, the Court held that a penalty under the SEBI Act for breach of a statutory obligation does not depend on proof of intention to violate, because the obligation is civil in nature.[42] In *SEBI v. Kishore R. Ajmera*, the Court accepted that the standard in such proceedings is the preponderance of probabilities and that direct proof is not required where the surrounding circumstances reasonably point to a violation.[43] These principles are especially useful in insider trading, where direct evidence of the communication of UPSI is rarely available.

B. SEBI v. Abhijit Rajan (2022)

SEBI v. Abhijit Rajan concerned the chairman and managing director of Gammon Infrastructure Projects Limited, who sold a substantial block of shares in August 2013, shortly before the company disclosed to the stock exchanges that two shareholder agreements with Simplex Infrastructure had been terminated. SEBI's Whole Time Member held that this was insider trading and ordered disgorgement of unlawful gains of Rs. 1.09 crore. The Securities

[42] *Securities and Exchange Board of India v. Shriram Mutual Fund*, (2006) 5 SCC 361 (India).

[43] *Securities and Exchange Board of India v. Kishore R. Ajmera*, (2016) 6 SCC 368 (India).

Appellate Tribunal allowed his appeal on November 8, 2019 on the ground that the proceeds of the sale were used to meet the promoter contribution under a debt restructuring package.[44]

The Supreme Court dismissed SEBI's appeal. It accepted that the respondent was an insider and that the termination of the agreements was price sensitive information, but held that a charge of insider trading requires that the insider acted with the aim of gaining from the information. The Court reasoned that the termination was likely to raise the share price when disclosed, so a person seeking to exploit the information would have waited, not sold beforehand, and it treated the sale as a distress sale carried out to meet a financial obligation. In the Court's view, profit motive, though not actual profit, is the motivating factor in insider trading.[45]

The decision was criticised for reading a motive requirement into regulations that, in their text, are based on possession. It also left open the question whether the same reasoning would apply under the 2015 Regulations, which contain an express presumption and a note on the irrelevance of motive.

C. SEBI v. Rajeev Vasant Sheth (2026)

That question appears to have been answered on August 11, 2026 in *SEBI v. Rajeev Vasant Sheth*, commonly called the Tara Jewels case. The facts, as reported, were that Tara Jewels Limited was incurring increasing losses, and its chairman and promoters sold shares during this period to raise funds that were put into the company for expenses and working capital. The Securities Appellate Tribunal, applying the reasoning in *Abhijit Rajan*, held that they lacked an intention to profit and so had not committed insider trading.[46]

The Supreme Court, in a bench of Karol and Kotiswar Singh JJ., reversed the Tribunal. As reported, it relied on the note to Regulation 4(1) of the 2015 Regulations, which makes the reasons for a trade and the use of its proceeds irrelevant, and held that proof that the respondents traded while in possession of UPSI is sufficient, whatever the profit made. The Court is reported to have treated the list of defences in Regulation 4(1) as open to additions only if they

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[44] *Securities and Exchange Board of India v. Abhijit Rajan*, Civil Appeal No. 563 of 2020 (India Sept. 19, 2022).

[45] *Abhijit Rajan*, Civil Appeal No. 563 of 2020. For commentary, see Shruti Rajan, *Insider Trading, Corporate Purpose and the Supreme Court*, Bar & Bench (Aug. 21, 2026), https://www.barandbench.com/columns/insider-trading-corporate-purpose-and-the-supreme-court.

[46] *Securities and Exchange Board of India v. Rajeev Vasant Sheth* (India Aug. 11, 2026), discussed in Shruti Rajan, *Insider Trading, Corporate Purpose and the Supreme Court*, Bar & Bench (Aug. 21, 2026), https://www.barandbench.com/columns/insider-trading-corporate-purpose-and-the-supreme-court.

are close in nature to the listed ones, and to have held that the corporate purpose defence is not available under the 2015 Regulations. Commentators note that *Abhijit Rajan* has been distinguished on the ground that it was decided under the 1992 Regulations, which had no such note, although its enquiry into whether the nature of the trade is consistent with the nature of the information may remain relevant.

D. Assessment

The two decisions show how difficult it is to set the boundary of liability. The *Abhijit Rajan* approach protects the insider who sells under real pressure and who has no purpose of exploiting the information, but it requires the regulator or the court to reconstruct the insider's state of mind after the event, which is uncertain and invites after-the-fact explanations. The *Rajeev Vasant Sheth* approach is clearer and fits the text of the 2015 Regulations and the presumption in Regulation 4(1). It makes it easier for SEBI to establish a violation and supports investor protection by removing a defence that could be raised in almost every case.

It may, however, be harsh where the insider's purpose is plainly to save the company. The Regulations already provide a route, which is the trading plan, but its 120-day cool-off makes it of little use in a sudden crisis. This points to a gap between the strictness of the prohibition and the flexibility available to an honest insider in real difficulty, a gap taken up in Part XI.

VIII. A COMPARATIVE PERSPECTIVE

A. United States

The United States has no general statute defining insider trading. Liability arises under section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5, developed by the courts.[47] In *Chiarella v. United States*, the Supreme Court held that silence is fraudulent only where there is a duty to disclose arising from a relationship of trust, so there is no general duty on all market participants to disclose or abstain.[48] *Dirks v. SEC* extended liability to tippees where the insider breached a duty by disclosing for a personal benefit and the tippee knew or should have known of the breach, and *Salman v. United States* held that a gift of confidential information to a trading relative or friend meets the personal benefit test.[49] *United States v. O'Hagan* added the

[47] Securities Exchange Act of 1934 § 10(b), 15 U.S.C. § 78j(b); 17 C.F.R. § 240.10b-5.

[48] Chiarella v. United States, 445 U.S. 222 (1980).

[49] Dirks v. SEC, 463 U.S. 646 (1983); Salman v. United States, 580 U.S. 39 (2016).

misappropriation theory, under which a person who uses confidential information in breach of a duty owed to its source commits fraud in connection with a securities transaction.[50]

The American approach is therefore based on breach of duty, whereas the Indian approach is based on possession. This makes the Indian regime wider in reach, since a remote tippee is covered without proof of a breach, but it also explains why the Indian courts have felt a need to read in a requirement of purpose, as in *Abhijit Rajan*. The American system of trading plans under Rule 10b5-1 offers an affirmative defence for pre-arranged trades, and rules adopted in 2022 added cooling-off periods for directors and officers, a development comparable to Regulation 5.[51] The American whistle-blower programme, under which awards range from ten to thirty per cent of sanctions above one million dollars, is also more generous than the Indian cap of ten crore rupees.[52]

B. European Union and United Kingdom

The European Union regulates insider dealing through the Market Abuse Regulation, which defines inside information, prohibits insider dealing, unlawful disclosure and recommending or inducing others to deal, and requires issuers to maintain insider lists and managers to notify their own transactions.[53] The insider list and the notification of managers' transactions have close parallels in the Indian structured digital database and the disclosure requirements of Regulation 7. In the United Kingdom, insider dealing is a criminal offence under Part V of the Criminal Justice Act 1993, and the civil market abuse regime under the retained version of the Market Abuse Regulation is enforced by the Financial Conduct Authority.[54]

C. Lessons for India

The comparison suggests three points. First, India's possession-based test is closer to the European approach and is better suited to a market where information moves through informal networks. Second, India's compliance architecture, with its mandatory database and codes of conduct, is detailed by international standards, which indicates that the weaker point of the system is detection and proof, not rule-making. Third, in India, the interplay of a strict

[50] United States v. O'Hagan, 521 U.S. 642 (1997).

[51] 17 C.F.R. § 240.10b5-1.

[52] 15 U.S.C. § 78u-6.

[53] Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on Market Abuse, arts. 8, 10, 14, 18, 19, 2014 O.J. (L 173) 1.

[54] Criminal Justice Act 1993, c. 36, pt. V (UK).

presumption and a purposive judicial gloss has created a degree of uncertainty that other systems manage through clear statutory definitions of the mental element.

Table 3 sets out the main points of comparison.

Table 3: India, the United States and the European Union and United Kingdom Compared

Point of comparison	India	United States	EU and UK
Legal basis	SEBI Act, 1992 and PIT Regulations, 2015	Section 10(b) and Rule 10b-5, developed by the courts	Market Abuse Regulation; Criminal Justice Act 1993, Part V (UK)
Basis of liability	Trading while in possession of UPSI, with a presumption of use	Breach of duty (classical and misappropriation theories)	Dealing on inside information; criminal offence in the UK
Pre-arranged trading	Trading plans under Reg. 5, 120-day cool-off	Rule 10b5-1 defence, with cooling-off periods added in 2022	Not examined here
Records and notification	Structured digital database; disclosures under Reg. 7	Not examined here	Insider lists and managers' transactions (arts. 18–19)
Informant rewards	10% of sanctions, up to ₹10 crore	10–30% of sanctions above $1 million	Not examined here

IX. CHALLENGES IN DETECTION AND ENFORCEMENT

A. Proving Possession and Communication

Because the Regulations are based on possession, proof that the accused held UPSI is the starting point. Yet UPSI is usually passed on orally, through messaging applications or through intermediaries, and leaves little record. The deeming provisions on connected persons and the presumption in Regulation 4(1) ease the burden, and the preponderance of probabilities standard accepted in *Kishore R. Ajmera* allows reliance on circumstantial evidence such as the timing of trades, the pattern of calls and messages, and the relationship between the persons. Even so, building a case that survives appeal is demanding and requires skilled investigation.

B. Indirect Trading and Connected Networks

Insiders can avoid detection by trading through relatives, friends, employees or accounts held in other names. The 2024 amendments, by widening the term "relative" and adding persons who share a household, try to close part of this gap, but a determined insider can use a chain of acquaintances who fall outside any definition. Trading in derivatives and across several accounts further complicates the analysis of trading patterns.

C. Reliance on Self-Reporting and Compliance

Much of the system depends on disclosures, databases and codes maintained by the companies themselves. The structured digital database is a powerful tool only if entries are accurate and complete. There is a risk that compliance becomes a matter of form, with the database filled in after the event or the trading window closed on paper. The two-day period for entering externally sourced information, though practical, also creates a short window in which entries are not made contemporaneously.

D. Delay and Multi-Tier Litigation

The route from investigation to adjudication, to the Tribunal and then to the Supreme Court takes years. *Abhijit Rajan* concerned a sale in 2013 and was decided by the Supreme Court in 2022. Delay weakens deterrence because the penalty is felt long after the trade, and may be affected by the loss of evidence and the changing of the law, as the move from the 1992 to the 2015 Regulations shows.

E. Limited Remedies for Investors

The Regulations are enforced in the public interest, and the penalties and disgorgement are directed at the wrongdoer and the regulator's funds. They do not set out a specific mechanism for compensating the counterparties who traded at a disadvantage. The Regulations therefore protect investors mainly by deterrence and by market-wide confidence, and not by redress, which is a limitation for the person who has actually suffered a loss.

F. Evolving Channels of Communication

The way in which information moves has changed faster than the law that regulates it. Results and corporate developments are now discussed in group messages and short calls that leave no formal trail, and enforcement increasingly depends on the recovery and interpretation of electronic records. The structured digital database and the legitimate purpose policy were designed with formal sharing of information in mind, such as with auditors, bankers and advisers. They are less effective against informal sharing between acquaintances, which is the pattern that a regulator is most likely to face in practice. This means that investigative methods, and the guidance given to companies on how to control communications, need to be updated regularly.

X. EFFECTIVENESS OF THE FRAMEWORK: AN ASSESSMENT

The research question has two parts: whether the framework prevents insider trading and whether it protects investors. On *prevention*, the answer is mixed. The framework is strong in design. It has a wide definition of insider and UPSI, a possession-based prohibition with a presumption, a structured system of controls inside companies, an external whistle-blower channel, a penalty tied to profits and the possibility of imprisonment. The amendments of 2024 and 2025 show a regulator willing to update the law, and the comparison with other jurisdictions suggests that the rules are, on the whole, detailed and in step with international practice.

The weaker area is detection and proof. Prevention depends on the credible prospect of being caught and penalised, and the difficulties described in Part IX, namely informal communication, indirect trading, dependence on self-reporting and delay, lower that prospect. The compliance burden, moreover, falls most heavily on listed companies and intermediaries, which may produce box-ticking, while sophisticated wrongdoers operate outside the formal perimeter.

On *investor protection*, the framework safeguards investors mainly at the level of market integrity. Strict liability and the removal of the corporate purpose defence in *Rajeev Vasant Sheth* strengthen this by making violations easier to prove. But the absence of a direct route to compensation means that an investor who traded against an insider is not made whole, and the benefit to such an investor is indirect.

The judicial position also shows both strength and tension. A clear possession-based rule is easier for SEBI and for companies to apply, and discourages the argument that any insider can explain a trade after the event. At the same time, a rigid rule risks penalising trades made under genuine compulsion that did not harm other investors, and such outcomes could erode the legitimacy of the system if they are seen as disproportionate. The existence of the trading plan is an acknowledgment of this tension, but its limits show that the balance is not yet fully settled.

Taken together, the framework can be described as moderately effective. It is well developed in its normative content and compliance structure, and is increasingly supported by judicial clarity under the 2015 Regulations. Its effectiveness in practice is held back by the practical difficulty of detection, the length of enforcement and the lack of a compensation remedy. These are matters of implementation more than of drafting, and the suggestions below address them accordingly.

XI. SUGGESTIONS

First, SEBI should keep strengthening its surveillance capacity with data analytics that link trading patterns to communication data, corporate announcements and relationships among accounts, and should build clearer cooperation arrangements with other regulators and law enforcement agencies, including through the IOSCO Multilateral Memorandum of Understanding, to which SEBI is a signatory, for cross-border cases.

Second, SEBI should use its power under Regulation 11 to issue guidance on matters of persistent doubt, such as the scope of legitimate purposes, the circumstances in which information is "generally available", and the treatment of messaging applications within the structured digital database and the code of conduct.

Third, in light of the strictness of the post-*Rajeev Vasant Sheth* position, the law could provide a narrow, regulated route for insiders facing a genuine and documented compulsion, for example a pre-approved exception with disclosure to the stock exchange and a short cool-off, instead of leaving the question to the case-by-case discretion of the courts. This would preserve the possession-based rule while limiting its harshness.

Fourth, a mechanism should be considered for applying part of the amounts disgorged in insider trading cases to compensate identifiable investors who traded against the insider, or to fund investor protection measures directly connected to the violation. This would give substance to the claim that the framework protects investors and not merely markets.

Fifth, the informant scheme should be strengthened by considering whether the ceiling on rewards, the three-year limit on timeliness, and the protections against retaliation are adequate to induce disclosures by those with real inside knowledge. Periodic independent audits of the structured digital database in listed companies, with reporting to the audit committee, would reduce the risk of formal compliance.

Sixth, the time taken in adjudication and appeal should be reduced through time-bound disposal, specialised benches, and effective use of interim disgorgement and market restrictions, so that sanctions follow the violation closely enough to deter.

Finally, investor and corporate awareness should be improved through regular training for designated persons, simple guidance for retail investors on recognising and reporting suspicious trading, and publication of case studies that explain how violations are detected.

XII. CONCLUSION

Insider trading strikes at the equality of access on which securities markets depend. India has responded with a detailed framework in the PIT Regulations, which defines insiders and UPSI widely, prohibits trading and communication, requires disclosures, codes and a structured digital database, offers rewards to informants, and gives SEBI strong powers of investigation and penalty. The law has evolved steadily since 1992, and the amendments of 2024 and 2025 reflect a regulator that is attentive to practical gaps.

The question posed at the outset was how effective the framework is in preventing insider trading and protecting investors. This paper concludes that the framework is strong in its design and compliance structure but weaker in its detection and in its remedies for investors. The Supreme Court's decisions in *Abhijit Rajan* and *Rajeev Vasant Sheth* show the difficulty of balancing a clear possession-based rule against fairness to insiders acting under pressure, and the latter, at least for the 2015 Regulations, has settled the direction towards possession and trade as the core of liability.

Better surveillance, clearer guidance, a narrow safeguard for genuine compulsion, a compensation route for affected investors and faster adjudication would help the law deliver on its promise. The goal is a market in which investors can trade in the confidence that those who misuse confidential information will be found and penalised, and that is a goal which requires continued attention to enforcement as much as to rule-making.

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