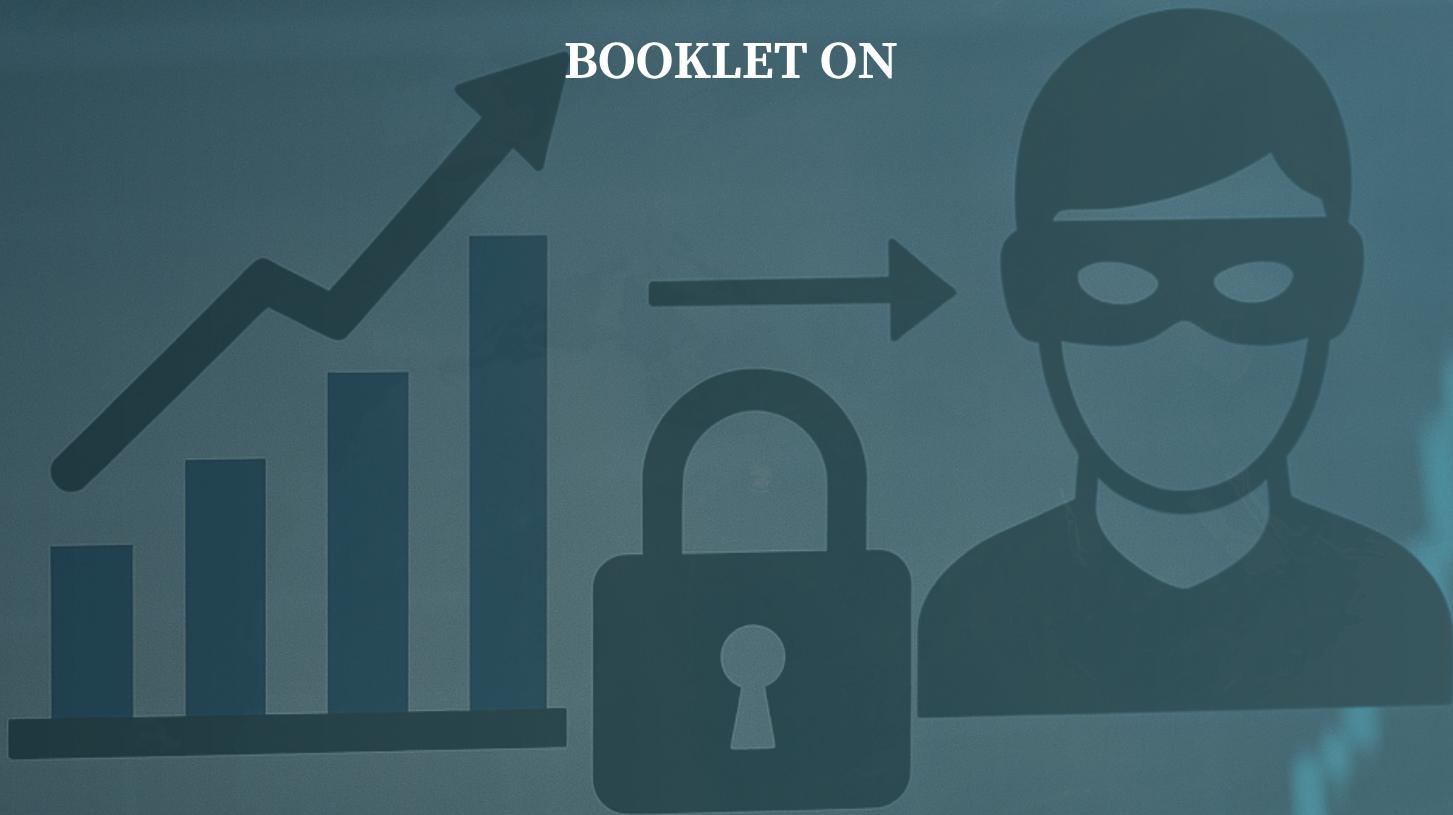


BOOKLET ON



# INSIDER TRADING

**BOOKLET ON**

**SEBI (Prohibition of Insider  
Trading) Regulations, 2015**

**By Bhatt & Joshi Associates**

# Preface

The Securities and Exchange Board of India (SEBI) (Prohibition of Insider Trading) Regulations, 2015, notified on January 15, 2015, and effective from May 15, 2015, form a critical pillar of India's capital market regulatory framework. Replacing the 1992 regulations, these rules aim to curb insider trading, protect investor confidence, and ensure market integrity by prohibiting the misuse of unpublished price-sensitive information (UPSI). This booklet offers a comprehensive exploration of the PIT Regulations 2015, detailing their provisions, amendments, and practical implications for listed entities, insiders, and market participants. It is designed for legal professionals, compliance officers, corporate executives, and academics seeking to understand and implement these regulations effectively.

The PIT 2015 regulations establish a robust framework for preventing insider trading, defining key terms like "insider," "connected person," and "UPSI." They mandate trading plans, disclosure requirements, and codes of conduct for listed companies and intermediaries. The regulations also empower SEBI to investigate and penalize violations, ensuring accountability. Amendments up to March 2025, including enhanced digital compliance and stricter disclosure norms, reflect SEBI's commitment to addressing evolving market challenges, such as technology-driven trading and cross-border transactions.

This booklet integrates the regulatory text, SEBI circulars, enforcement orders, and relevant case laws, providing a holistic view of the PIT framework. It addresses practical compliance issues, such as managing UPSI and implementing effective monitoring systems, while highlighting landmark SEBI adjudications. By

consolidating these resources, the booklet equips readers with the tools to navigate the complexities of insider trading regulations in India's dynamic capital markets.

The bibliography below compiles 70 authoritative sources, including SEBI's official documents, legal texts, academic journals, industry reports, and case law compilations. This extensive collection supports rigorous research and practical application, emphasizing the PIT 2015's role in fostering a fair, transparent, and investor-protective market ecosystem in India.

Sincerely

Bhatt & Joshi Associates

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# Chapter 1: Legislative Framework and Constitutional Basis

## Introduction to Insider Trading Regulation

Insider trading, the act of trading securities based on unpublished price-sensitive information, poses a significant threat to market integrity and investor confidence. In India, the Securities and Exchange Board of India (SEBI) regulates insider trading through a robust legislative framework anchored in the SEBI Act, 1992. This chapter examines the legislative provisions governing insider trading, focusing on SEBI's regulatory powers, penalties, and criminal liabilities. It also explores the constitutional basis for these regulations, judicial interpretations, and a comparative analysis with international frameworks, such as the European Union's Market Abuse Regulation. By addressing these dimensions, the chapter provides a comprehensive understanding of India's approach to combating insider trading, ensuring transparency and fairness in the securities market.

## SEBI's Regulatory Authority

### Section 11(1) of the SEBI Act, 1992

Section 11(1) of the SEBI Act, 1992, is a foundational provision that empowers SEBI to protect investors, promote the development of the securities market, and regulate market intermediaries. Specifically, this section authorizes SEBI to prohibit insider trading by formulating regulations, issuing directives, and taking enforcement actions.

The provision enables SEBI to monitor trading activities, investigate suspicious transactions, and implement measures to prevent the misuse of unpublished price-sensitive information. By vesting SEBI with broad regulatory powers, Section 11(1) ensures that the securities market operates on principles of fairness and transparency, safeguarding investor interests and maintaining market confidence.

### **Implementation of Anti-Insider Trading Measures**

The implementation of SEBI's powers under Section 11(1) involves the establishment of detailed regulations, such as the SEBI (Prohibition of Insider Trading) Regulations, 2015. These regulations define insiders, specify the types of information considered price-sensitive, and outline compliance requirements for listed entities. SEBI actively monitors trading patterns, conducts investigations, and collaborates with stock exchanges to detect insider trading activities. The authority under Section 11(1) also allows SEBI to issue cease-and-desist orders, suspend trading, and impose restrictions on individuals or entities involved in insider trading. This proactive regulatory approach ensures that insider trading is swiftly addressed, reinforcing the integrity of the securities market.

### **Penalties for Insider Trading**

#### **Section 12A of the SEBI Act, 1992**

Section 12A of the SEBI Act, 1992, prescribes stringent penalties for insider trading, empowering SEBI to impose monetary fines and other punitive measures. The section stipulates that individuals or entities found guilty of insider trading may face a penalty of up to Rs. 25 crore or three times the profit made from the illegal transaction, whichever is higher. This provision reflects SEBI's commitment to deterring insider

trading by imposing significant financial consequences. The severity of the penalty underscores the importance of maintaining a level playing field in the securities market, ensuring that insiders do not exploit privileged information to the detriment of other investors.

## **Deterrence and Enforcement**

The penalties under Section 12A serve as a powerful deterrent against insider trading, signaling to market participants that violations will result in substantial financial repercussions. SEBI's enforcement of this provision involves thorough investigations to establish the existence of insider trading, including the analysis of trading records, communication trails, and corporate disclosures. The flexibility to impose a penalty based on the higher of Rs. 25 crore or three times the profit ensures that the punishment is proportionate to the scale of the violation. By consistently applying these penalties, SEBI reinforces investor trust and discourages unethical practices, contributing to a transparent and equitable market environment.

## **Constitutional Validity**

### **Article 19(1)(g) and Reasonable Restrictions**

The regulation of insider trading in India operates within the constitutional framework, particularly under Article 19(1)(g) of the Constitution, which guarantees the right to practice any profession or carry on any occupation, trade, or business. This right is subject to reasonable restrictions imposed in the public interest, as provided under Article 19(6). SEBI's anti-insider trading regulations, including the prohibitions and penalties under Sections 11(1) and 12A, constitute such reasonable restrictions. These measures are designed to protect investors, ensure market fairness, and prevent

the abuse of privileged information, aligning with the public interest objectives of constitutional law.

### **Judicial Scrutiny and Legitimacy**

The constitutional validity of SEBI's insider trading regulations has been upheld by courts, which recognize their necessity for maintaining market integrity. The restrictions imposed by SEBI are deemed proportionate, as they target specific misconduct without unduly infringing upon the freedom to conduct business. Courts have emphasized that insider trading undermines investor confidence and distorts market dynamics, justifying regulatory intervention. The alignment of SEBI's framework with Article 19(1)(g) ensures that the regulations withstand constitutional scrutiny, providing a legitimate basis for combating insider trading while respecting fundamental rights.

### **Criminal Liability for Insider Trading**

#### **Section 15G of the SEBI Act, 1992**

Section 15G of the SEBI Act, 1992, introduces criminal liability for insider trading, elevating the consequences of such violations beyond monetary penalties. The section provides that individuals found guilty of insider trading may face imprisonment for up to ten years, a fine, or both. This provision underscores the gravity of insider trading as an offense that undermines the securities market's integrity. By incorporating criminal sanctions, Section 15G enhances the deterrent effect of SEBI's regulatory framework, ensuring that insiders face severe consequences for exploiting unpublished price-sensitive information.

## **Enforcement and Prosecution**

The enforcement of criminal liability under Section 15G involves coordination between SEBI and judicial authorities, as criminal prosecution requires adjudication by courts. SEBI conducts detailed investigations to gather evidence of insider trading, including trading patterns, insider connections, and access to price-sensitive information. Upon establishing a *prima facie* case, SEBI may refer the matter for criminal prosecution, leading to trials that can result in imprisonment and fines. The inclusion of criminal liability strengthens SEBI's enforcement arsenal, ensuring that insider trading is addressed with the seriousness it warrants, thereby protecting the interests of investors and the public.

## **Judicial Interpretation**

### **Securities and Exchange Board of India v. Shriram Mutual Fund (2006)**

The Supreme Court's decision in *Securities and Exchange Board of India v. Shriram Mutual Fund (2006)* is a landmark case that clarified the scope of SEBI's authority to regulate insider trading. The case involved allegations of insider trading by a mutual fund, prompting SEBI to impose penalties and issue directives. The Supreme Court upheld SEBI's powers under the SEBI Act, emphasizing that insider trading violates the principles of market fairness and investor protection. The court ruled that SEBI's regulations and enforcement actions are essential to maintaining a transparent securities market, reinforcing the regulator's role in combating insider trading.

### **Implications of the Judgment**

The Shriram Mutual Fund case has significant implications for SEBI's regulatory framework, as it affirms the legality and necessity of stringent anti-insider trading measures. The Supreme Court's endorsement of SEBI's authority enhances the enforceability of penalties and criminal sanctions, ensuring that violators face appropriate consequences. The judgment also underscores the importance of timely and accurate disclosures by insiders, reinforcing the obligations of listed entities and their personnel. By clarifying the legal basis for SEBI's actions, the case strengthens the regulatory framework, fostering a market environment where insider trading is effectively deterred.

## **International Comparison**

### **EU Market Abuse Regulation**

The European Union's Market Abuse Regulation (MAR), implemented in 2016, provides a robust framework for addressing insider trading and market abuse across EU member states. Like India's SEBI regulations, the MAR prohibits insider trading, defines insiders, and mandates disclosures of price-sensitive information. However, the MAR adopts a broader scope, covering not only listed securities but also financial instruments traded on multilateral trading facilities and over-the-counter markets. The MAR imposes both civil and criminal penalties, with fines varying by jurisdiction but often exceeding those under India's SEBI Act. Additionally, the MAR emphasizes harmonized enforcement across the EU, supported by cooperation between national regulators.

### **Comparative Analysis with India's Framework**

A comparative analysis of India's insider trading framework and the EU's MAR reveals both similarities and differences. Both frameworks prioritize investor protection and market integrity, employing stringent penalties and regulatory oversight to deter insider trading. However, India's SEBI Act integrates criminal liability directly within the securities law (Section 15G), while the MAR relies on member states to define criminal sanctions, leading to variations in enforcement. The MAR's broader scope and emphasis on cross-border coordination contrast with India's focus on domestic listed entities, reflecting differences in market structures. Despite these distinctions, both systems underscore the importance of transparency and accountability, aligning with global standards for combating insider trading.

## Conclusion

India's legislative framework for insider trading, anchored in the SEBI Act, 1992, provides a comprehensive and robust mechanism to ensure market fairness and investor protection. Section 11(1) empowers SEBI to prohibit insider trading, while Section 12A and Section 15G impose stringent monetary and criminal penalties, respectively. The constitutional validity of these regulations under Article 19(1)(g) reinforces their legitimacy, balancing regulatory oversight with fundamental rights. The Supreme Court's ruling in *Securities and Exchange Board of India v. Shriram Mutual Fund* (2006) affirms SEBI's authority, while a comparison with the EU's Market Abuse Regulation highlights India's alignment with global standards. Together, these elements create a transparent and investor-centric framework, fostering confidence in India's securities market and deterring unethical practices.

# Chapter 2: Definitions and Key Legal Concepts

The Securities and Exchange Board of India (SEBI) regulates insider trading in India through the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations), which provide a robust framework to prevent the misuse of confidential information in the securities market. A critical aspect of these regulations lies in their precise definitions and key legal concepts, which establish the scope and applicability of insider trading laws. Chapter 2 of this booklet examines the definitions and legal concepts under the PIT Regulations, focusing on the definitions of “connected person,” “generally available information,” “insider,” “unpublished price sensitive information,” and “immediate relative,” as well as relevant case law. This chapter offers a detailed analysis of these foundational terms to provide clarity on their legal implications and practical application in ensuring market integrity and investor protection.

## Regulation 2(1)(e) - "Connected Person" Definition

Regulation 2(1)(e) of the PIT Regulations defines a “connected person” as an individual or entity with a direct or indirect connection to a company, positioning them to access unpublished price sensitive information (UPSI). The definition encompasses 12 specific categories, reflecting SEBI’s intent to cast a wide net to prevent insider trading. These categories include directors, employees, or partners of the company, as well as individuals holding professional or business relationships, such as auditors, legal advisors, or consultants, who may have access to UPSI during

their engagement. The definition also covers immediate relatives of such persons, recognizing that family members may indirectly benefit from or act on confidential information.

Additionally, Regulation 2(1)(e) includes persons associated with intermediaries, such as stockbrokers, merchant bankers, or registrars, who handle sensitive information in their professional capacity. Other categories encompass entities like holding companies, subsidiaries, associates, or firms where a connected person is a partner or holds a significant position. The regulation extends to individuals who habitually communicate with company insiders or have access to UPSI through their roles in trade unions or employee associations. This comprehensive definition ensures that any person or entity with potential access to UPSI, whether through formal roles or informal relationships, is subject to insider trading restrictions.

The broad scope of the “connected person” definition reflects SEBI’s proactive approach to addressing the complexities of modern corporate structures and relationships. By enumerating specific categories, the regulation minimizes ambiguity and ensures that individuals or entities with privileged access to information are held accountable for maintaining confidentiality. This provision is critical in preventing the leakage of UPSI to unauthorized parties, thereby safeguarding market fairness and investor trust.

## **Regulation 2(1)(f) - "Generally Available Information" Criteria**

Regulation 2(1)(f) defines “generally available information” as information that is accessible to the public on a non-discriminatory basis. This concept is pivotal in

distinguishing between information that constitutes UPSI and information that does not trigger insider trading restrictions. For information to be considered generally available, it must be disseminated through recognized channels, such as stock exchange disclosures, press releases, or publications in widely circulated media, ensuring that all market participants have equal access.

The criteria for generally available information emphasize non-discriminatory access, meaning the information must not be restricted to a select group of individuals or entities, such as analysts or institutional investors. For instance, information disclosed on a stock exchange's website or through a regulatory filing, such as a quarterly financial report, qualifies as generally available, as it is accessible to all investors. Conversely, information shared privately in board meetings, internal memos, or selective briefings does not meet this criterion until it is publicly disclosed.

The significance of this definition lies in its role in determining whether trading on certain information constitutes insider trading. If information is generally available, it cannot be classified as UPSI, and trading based on such information is permissible. SEBI's focus on non-discriminatory access aligns with global best practices, ensuring that the securities market operates on a level playing field. The regulation also encourages companies to adopt robust disclosure practices, promptly disseminating material information to avoid inadvertent insider trading violations.

## **Regulation 2(1)(g) - "Insider" Definition and Scope**

Regulation 2(1)(g) defines an "insider" as any person who is a connected person or has access to unpublished price sensitive information. This definition is central to the PIT Regulations, as it identifies the individuals or entities subject to insider trading prohibitions. The scope of the insider definition is deliberately broad, encompassing

not only those with formal ties to the company, such as directors or employees, but also external parties who gain access to UPSI through professional engagements, such as accountants, legal advisors, or investment bankers.

The definition also includes individuals who receive UPSI through unauthorized means, such as tippees who obtain confidential information from insiders. This provision addresses the risk of information leakage through secondary sources, ensuring that both the source and recipient of UPSI are liable for insider trading violations. The inclusion of connected persons within the insider definition reinforces the linkage between access to information and responsibility, emphasizing that proximity to UPSI carries a legal obligation to refrain from trading or disclosing it.

The scope of the insider definition extends beyond individuals to entities, such as partnerships, trusts, or corporate bodies, that may possess UPSI. This ensures that institutional actors handling sensitive information are equally accountable. By defining insiders in this comprehensive manner, SEBI aims to deter the misuse of confidential information across all levels of the corporate and financial ecosystem, protecting investors from unfair trading practices and maintaining market integrity.

## **Regulation 2(1)(n) - "Unpublished Price Sensitive Information" Definition**

Regulation 2(1)(n) defines “unpublished price sensitive information” (UPSI) as any information relating to a company or its securities that is not generally available and, if disclosed, is likely to materially affect the price of the securities. The definition provides illustrative examples of UPSI, including financial results, dividends, mergers and acquisitions, changes in capital structure, and significant litigation or regulatory

actions. This non-exhaustive list highlights the types of information that could influence investor decisions and market dynamics.

The dual criteria of non-availability and material impact are critical to the UPSI definition. Information is considered unpublished if it has not been disseminated through public channels, such as stock exchange filings or media releases. The materiality threshold requires that the information, if disclosed, would likely cause a significant change in the market price of the securities, reflecting its relevance to investor decision-making. For instance, a company's decision to undertake a major acquisition or face a regulatory penalty would typically qualify as UPSI due to its potential to affect share prices.

The UPSI definition is a cornerstone of insider trading regulation, as it identifies the information that insiders are prohibited from trading on or disclosing. SEBI's emphasis on materiality ensures that only information with significant market implications triggers regulatory scrutiny, avoiding overreach into trivial matters. Companies are required to establish internal controls, such as trading windows and pre-clearance procedures, to manage the handling of UPSI and prevent its misuse, underscoring the definition's practical importance in corporate governance.

## **Regulation 2(1)(i) - "Immediate Relative" Specification**

Regulation 2(1)(i) defines an "immediate relative" as a spouse, parent, sibling, or child of a connected person or insider, provided such relative is financially dependent on the individual or consults them for trading decisions. This definition recognizes the potential for insiders to share UPSI with close family members, who may then trade on it, thereby circumventing insider trading prohibitions. By including immediate

relatives within the regulatory framework, SEBI ensures that the misuse of confidential information through familial channels is addressed.

The specification of financial dependency or consultation as qualifying criteria adds precision to the definition, excluding relatives who are independent in their financial decision-making. For example, a spouse who relies on an insider's income or seeks their advice on securities trading is considered an immediate relative, while a financially independent sibling making autonomous investment decisions may not be. The regulation also allows companies to require immediate relatives to comply with insider trading policies, such as obtaining pre-clearance for trades during restricted periods.

This definition strengthens the PIT Regulations by closing potential loopholes in enforcement. It acknowledges the social and familial dynamics that may facilitate information leakage, ensuring that insiders cannot evade liability by channeling UPSI through relatives. The provision also places an onus on insiders to monitor and control the flow of sensitive information within their households, reinforcing their responsibility to uphold market fairness.

## **Case Law: SEBI v. Kiran C. Patel (2017) SAT - Connected Person Interpretation**

The case of *SEBI v. Kiran C. Patel* (2017) before the Securities Appellate Tribunal (SAT) provides significant insights into the interpretation of the “connected person” definition under Regulation 2(1)(e). In this case, SEBI initiated action against Kiran C. Patel, an individual alleged to have traded in the securities of a listed company based on UPSI obtained through his professional relationship with the company's

management. SEBI argued that Patel qualified as a connected person due to his frequent interactions with company insiders and access to confidential information about an impending corporate announcement.

Patel contended that he was not a connected person, as he held no formal position with the company, such as a director or employee, and his interactions were incidental rather than habitual. He further argued that the information he traded on was derived from market analysis and publicly available sources, not UPSI. SEBI, however, relied on the broad scope of Regulation 2(1)(e), particularly the category covering individuals with professional or business relationships likely to provide access to UPSI, to establish Patel's status as a connected person.

The SAT, in its ruling, upheld SEBI's interpretation, emphasizing that the "connected person" definition is intentionally expansive to capture a wide range of relationships that could facilitate insider trading. The tribunal noted that Patel's regular communication with company insiders, coupled with the timing and specificity of his trades, indicated access to UPSI. The SAT clarified that a formal role within the company is not a prerequisite for being a connected person; rather, the likelihood of accessing UPSI through professional proximity is sufficient. However, the tribunal directed SEBI to ensure that allegations of insider trading are supported by concrete evidence of UPSI transmission, reinforcing the need for robust fact-finding.

This case underscored the importance of a broad yet evidence-based application of the connected person definition. It established a precedent for evaluating informal relationships in insider trading cases, highlighting SEBI's authority to scrutinize individuals beyond traditional corporate roles. The ruling also emphasized the need

for companies to implement stringent controls to prevent the leakage of UPSI to external parties, reinforcing the regulatory framework's focus on market integrity.

In conclusion, the definitions and key legal concepts under the PIT Regulations form the foundation of India's insider trading regulatory framework. Regulation 2(1)(e) defines "connected person" expansively to cover a wide range of relationships, while Regulation 2(1)(f) establishes clear criteria for "generally available information" to distinguish it from UPSI. Regulation 2(1)(g) broadly defines "insider" to include both connected persons and those with access to UPSI, and Regulation 2(1)(n) precisely identifies UPSI based on its non-public nature and material impact. Regulation 2(1)(i) addresses the role of "immediate relatives" in preventing information misuse through familial channels. The *SEBI v. Kiran C. Patel* case illustrates the practical application of these definitions, particularly the connected person concept, in enforcing insider trading laws. Together, these provisions create a comprehensive and robust framework that protects investors, ensures market fairness, and upholds the integrity of India's securities market.

## **Chapter 3: Enhanced UPSI Definition and 2024 Amendments**

The definition of Unpublished Price Sensitive Information (UPSI) under the Securities and Exchange Board of India (SEBI) Prohibition of Insider Trading (PIT) Regulations, 2015, is pivotal in curbing insider trading and ensuring market fairness. SEBI's efforts to refine this definition reflect its commitment to addressing evolving market dynamics and closing regulatory gaps. The consultation papers issued in May 2023 and November 2024, along with the subsequent amendments notified in March 2025, have significantly expanded the scope of UPSI, aligning it with material events under the SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015. This chapter explores the enhanced UPSI definition, focusing on Regulation 2(1)(n)(iv), materiality thresholds, integration with continuous disclosure requirements, the Biocon Ltd. case of 2025, and SEBI's regulatory interpretations through circulars and FAQs. These developments underscore SEBI's data-driven approach to fostering transparency and investor confidence in India's capital markets.

### **SEBI Consultation Papers on UPSI Definition Review (May 2023, November 2024)**

#### **May 2023 Consultation Paper**

In May 2023, SEBI released a consultation paper proposing a significant overhaul of the UPSI definition under Regulation 2(1)(n) of the PIT Regulations. The objective was to align UPSI with material events specified under Regulation 30 of the LODR

Regulations, thereby ensuring uniformity and clarity in compliance. SEBI's analysis of 1,099 press releases from the top 100 listed companies between 2021 and 2022 revealed a critical issue: only 1.64% of these releases were categorized as UPSI, despite 20.65% showing price movements exceeding 2%. This discrepancy indicated that companies were limiting UPSI to the explicit items listed in Regulation 2(1)(n), ignoring the broader principle that any information likely to materially affect share prices should be classified as UPSI. The proposed amendment sought to reintroduce material events as UPSI, a provision that existed until its removal in 2019 following the Fair Market Conduct Committee's recommendations.

### **November 2024 Consultation Paper**

The May 2023 proposal faced pushback from industry stakeholders, who argued that not all Regulation 30 events were price-sensitive, and a blanket inclusion could lead to overregulation and perpetual trading window closures. In response, SEBI issued a refined consultation paper in November 2024, narrowing the scope to specific Regulation 30 events deemed likely to impact share prices. The paper proposed adding 12 specific events to the UPSI definition, including significant contracts, terminations, litigation outcomes, and regulatory actions. This targeted approach aimed to balance compliance burdens with the need to curb insider trading. The consultation paper emphasized SEBI's intent to provide "illustrative guidance" rather than a prescriptive list, allowing companies flexibility in assessing price sensitivity. The feedback from this paper shaped the amendments approved in SEBI's December 2024 board meeting and notified in March 2025, effective June 10, 2025.

### **Impact of the Consultation Process**

The iterative consultation process reflects SEBI's responsiveness to market feedback and its commitment to evidence-based policymaking. By analyzing price movements and insider trading alerts—where notional profits often exceeded ₹25 crore—SEBI identified systemic non-compliance in UPSI categorization. The November 2024 paper addressed concerns about compliance complexity, ensuring that only events with a high likelihood of market impact were included. This approach not only clarified the UPSI framework but also aligned it with global best practices, enhancing India's regulatory credibility.

## **Regulation 2(1)(n)(iv) - Significant Contracts, Orders, and Terminations Inclusion**

### **Scope of the Amendment**

Regulation 2(1)(n)(iv), introduced through the SEBI PIT Amendment Regulations, 2025, explicitly includes the “award or termination of orders/contracts not in the normal course of business” as UPSI. This addition addresses a regulatory gap where significant contracts, such as supply chain agreements or service contracts, were often not disclosed as UPSI, despite their potential to influence share prices. The amendment formalizes the treatment of such events as price-sensitive, requiring companies to assess their materiality and disclose them promptly to stock exchanges. This provision captures disruptions in material procurement arrangements or strategic partnerships that could signal operational or financial challenges.

### **Rationale and Application**

The inclusion of significant contracts and terminations stems from SEBI's observation that such events often lead to substantial price movements when disclosed. For example, the termination of a major supply contract could indicate supply chain disruptions, affecting revenue projections and investor confidence. Similarly, the award of a high-value contract outside the ordinary course of business could signal growth opportunities, making it price-sensitive. The regulation requires companies to evaluate these events using the materiality guidelines under Schedule III of the LODR Regulations, ensuring consistency in disclosure practices. This provision also applies to subsidiaries, promoters, or key managerial personnel (KMP) if the contract impacts the listed entity.

### **Compliance Implications**

Companies must now maintain robust internal controls to identify and classify significant contracts as UPSI. The amendment mandates entries in the Structured Digital Database (SDD) within two calendar days of receiving such information, particularly for externally originating UPSI. Additionally, trading window closures may be required for designated persons in possession of this information, unless the UPSI originates externally, where SEBI has relaxed this requirement. This flexibility acknowledges the practical challenges of managing third-party information while ensuring compliance with insider trading norms.

### **Materiality Threshold Determination and Market Impact Assessment**

#### **Quantitative and Qualitative Criteria**

SEBI's LODR Amendments of 2023 introduced quantitative thresholds for determining materiality under Regulation 30, which have been integrated into the UPSI framework. Events or information exceeding the least of 2% of turnover, 2% of net worth, or 5% of average profit/loss after tax (based on the last audited standalone financial statements) are deemed material. These thresholds provide a clear benchmark for companies to assess whether a contract, order, or termination qualifies as UPSI. However, qualitative factors, such as strategic importance or reputational risks, also play a role. For instance, a contract termination below the quantitative threshold may still be UPSI if it involves a key client or signals regulatory issues.

### **Market Impact Assessment**

The market impact assessment is central to classifying information as UPSI. SEBI's guidelines emphasize that information is price-sensitive if, upon becoming public, it is likely to materially affect share prices. The 2024 Consultation Paper clarified that routine business activities, such as predictable fundraising or ordinary capital expenditures, may not qualify as UPSI unless they deviate significantly from the norm. Companies must evaluate the expected price movement based on historical data, industry trends, and the event's context. SEBI's study of press releases, which showed 227 instances of price movements exceeding 2%, underscores the need for a data-driven approach to this assessment.

### **Challenges in Implementation**

Determining materiality and market impact remains subjective, particularly for qualitative events. Companies must develop comprehensive materiality policies, as mandated by Regulation 30(4) of the LODR Regulations, to guide these assessments. The formation of statutory disclosure committees, comprising senior management

from various departments, has been suggested to ensure a holistic evaluation of events. These committees would document their deliberations and rationale, providing a transparent record for SEBI's review. The subjectivity of materiality continues to pose challenges, necessitating ongoing regulatory guidance and industry collaboration.

## **Integration with Continuous Disclosure Requirements under LODR**

### **Alignment with Regulation 30**

The 2025 PIT Amendments align the UPSI definition with the continuous disclosure requirements under Regulation 30 of the LODR Regulations, creating a cohesive framework for transparency. Regulation 30 mandates that listed entities disclose material events to stock exchanges within 24 hours, or within 30 minutes for board meeting outcomes, such as dividends or financial results. By including specific Regulation 30 events in the UPSI definition, SEBI ensures that price-sensitive information is promptly disseminated, reducing the window for insider trading. This integration streamlines compliance, as companies can apply the same materiality criteria for both LODR disclosures and UPSI classification.

### **Enhanced Disclosure Timelines**

The LODR Amendments of 2023 tightened disclosure timelines, proposing a 12-hour window for most material events, except where specific timelines are prescribed. The UPSI framework adopts these timelines, ensuring that price-sensitive information is disclosed swiftly to prevent information asymmetry. For externally originating UPSI, the two-day SDD reporting window provides practical flexibility while maintaining accountability. SEBI's emphasis on continuous disclosure aligns with its broader

objective of fostering real-time market transparency, ensuring that investors have access to critical information as soon as it becomes available.

### **Verification of Market Rumors**

The LODR Amendments also introduced mandatory verification of market rumors for the top 1000 listed entities, effective from June 1, 2024, and December 1, 2024, for the top 250 and 1000 entities, respectively. If a rumor relates to UPSI and is not verified, it continues to be treated as UPSI, prohibiting insiders from trading. This provision reinforces the integration of UPSI with continuous disclosure requirements, as companies must proactively address rumors to prevent speculative trading. The Biocon Ltd. case, discussed later, highlights the importance of timely rumor verification in maintaining market integrity.

### **Case Law: Biocon Ltd. Case (2025) - Contract Information as UPSI**

#### **Background of the Case**

In 2025, SEBI adjudicated a case involving Biocon Ltd., where the company failed to categorize a significant contract termination as UPSI, leading to alleged insider trading by a designated person. The contract, involving a major supply agreement with a global pharmaceutical client, was terminated due to regulatory non-compliance issues at Biocon's manufacturing facility. The termination was not disclosed promptly, and the designated person traded in Biocon's shares before the information became public, resulting in significant price volatility. SEBI's investigation revealed that the

company's internal controls for identifying UPSI were inadequate, violating Regulation 9A of the PIT Regulations.

### **SEBI's Findings and Ruling**

SEBI held that the contract termination was UPSI under Regulation 2(1)(n)(iv), as it was outside the normal course of business and likely to materially affect Biocon's share price. The regulator emphasized that the termination's impact on revenue and reputation warranted immediate disclosure under Regulation 30 of the LODR Regulations. Biocon's failure to classify the event as UPSI and delay in disclosure breached both PIT and LODR Regulations. The company and the designated person were fined, and the managing director was held accountable for lapses in internal controls. The case reinforced SEBI's stance that significant contracts must be rigorously evaluated for price sensitivity.

### **Implications for Compliance**

The Biocon Ltd. case set a precedent for the treatment of contract information as UPSI, particularly in industries like pharmaceuticals, where supply agreements are critical to financial performance. It underscored the need for robust materiality policies and real-time monitoring of contractual developments. The case also highlighted SEBI's enforcement focus on internal controls, prompting companies to strengthen their compliance frameworks, including SDD maintenance and trading window management. The ruling has influenced subsequent SEBI circulars, which provide detailed guidance on contract-related UPSI.

### **Regulatory Interpretation Circulars and FAQs by SEBI**

## **SEBI Circulars on UPSI Compliance**

Following the 2025 PIT Amendments, SEBI issued circulars to clarify the application of the enhanced UPSI definition. A key circular dated April 2025 detailed the treatment of externally originating UPSI, specifying that trading window closures are not mandatory for such information, provided it is recorded in the SDD within two days. Another circular addressed the materiality assessment for contracts, recommending that companies use both quantitative thresholds (e.g., 2% of turnover) and qualitative factors (e.g., strategic significance) to determine UPSI status. These circulars aim to reduce interpretational ambiguities and standardize compliance practices across listed entities.

## **FAQs for Practical Guidance**

SEBI's FAQs, released in May 2025, provide practical guidance on implementing the amended UPSI framework. Key clarifications include: (1) routine fundraising or operational contracts in the normal course of business are not UPSI unless they exceed materiality thresholds; (2) fraud and default have the same meanings as under the LODR Regulations; and (3) companies must establish SOPs for identifying UPSI, with clear roles for compliance officers and disclosure committees. The FAQs also address the Biocon Ltd. case, emphasizing that contract terminations involving regulatory issues are inherently price-sensitive and require immediate disclosure. These FAQs serve as a critical resource for companies navigating the expanded UPSI list.

## **Ongoing Regulatory Support**

SEBI's Industry Standards Forum, comprising industry bodies like ASSOCHAM and FICCI, continues to collaborate with listed entities to refine UPSI compliance practices. The forum's feedback has shaped the circulars and FAQs, ensuring that they address practical challenges, such as distinguishing between routine and significant contracts. SEBI's commitment to ongoing guidance reflects its proactive approach to balancing regulatory rigor with ease of doing business, fostering a compliance culture that supports market integrity.

## Conclusion

The 2024 amendments to the UPSI definition, driven by SEBI's consultation papers of May 2023 and November 2024, mark a significant evolution in India's insider trading regulatory framework. Regulation 2(1)(n)(iv) formalizes significant contracts, orders, and terminations as UPSI, addressing a critical gap in disclosure practices. The integration of materiality thresholds and market impact assessments ensures that only price-sensitive events trigger compliance obligations, while alignment with LODR's continuous disclosure requirements streamlines transparency. The Biocon Ltd. case of 2025 underscores the importance of robust internal controls and timely disclosures, particularly for contract-related UPSI. SEBI's circulars and FAQs provide essential clarity, guiding companies through the complexities of the enhanced framework. Together, these developments strengthen investor trust, curb insider trading, and position India's capital markets as a model of transparency and accountability.

# Chapter 4: Trading Prohibitions and Restrictions

The integrity of India's securities market hinges on robust regulations that prevent unfair trading practices, particularly those involving the misuse of sensitive information. The Securities and Exchange Board of India (SEBI) addresses these concerns through the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations), which establish a comprehensive framework to curb insider trading and ensure a level playing field for all market participants. This chapter examines the key provisions under Regulations 4(1), 4(2)(a), 5, 9, and 3(3), focusing on prohibitions related to trading while possessing unpublished price-sensitive information (UPSI), exceptions such as trading plans, and the principles governing the communication and sharing of UPSI. Additionally, it analyzes the landmark case of SEBI v. Abhijit Rajan & Others (2015) to illustrate the practical implications of these regulations. The discussion underscores the legal and procedural nuances designed to protect market fairness and investor confidence.

## Prohibition on Trading While Possessing UPSI

Regulation 4(1) of the SEBI PIT Regulations forms the cornerstone of insider trading prohibitions by explicitly barring individuals from trading in securities when in possession of unpublished price-sensitive information (UPSI). UPSI refers to any information that is not generally available and, if disclosed, is likely to materially affect the price of the securities of a listed company, such as financial results, dividends, or significant corporate actions. The regulation applies to insiders, defined

as persons who have access to UPSI due to their connection with the company, including directors, employees, or designated persons. Under Regulation 4(1), trading while possessing UPSI is deemed a violation, regardless of whether the trade was motivated by the information, emphasizing a possession-based approach rather than an intent-based one. This strict liability framework ensures that insiders cannot exploit their privileged access to sensitive information, thereby safeguarding market integrity. The regulation also imposes severe penalties for violations, including fines, disgorgement of profits, and potential bans from trading in securities markets. By establishing a clear prohibition, Regulation 4(1) deters insiders from engaging in activities that could undermine investor trust and distort market pricing mechanisms. Companies are required to implement internal controls, such as trading windows and pre-clearance procedures, to ensure compliance with this regulation, reinforcing the importance of vigilance in preventing insider trading.

## **Trading Plan Exception Mechanism**

While Regulation 4(1) imposes a stringent prohibition on trading while possessing UPSI, Regulation 4(2)(a) provides a carve-out through the trading plan exception mechanism, allowing insiders to trade under specific conditions. This regulation permits insiders to formulate a pre-approved trading plan, which outlines their intended transactions in the company's securities over a specified period. The trading plan must be submitted to the company's compliance officer at least six months in advance, ensuring that it is not influenced by any UPSI available at the time of execution. Once approved, the plan is irrevocable, and trades must be executed strictly in accordance with its terms, regardless of any subsequent UPSI that the insider may possess. Regulation 4(2)(a) mandates that the trading plan include details such as the value or number of securities to be traded, the nature of the trade (buy or sell), and the

time intervals for execution. The regulation also requires public disclosure of the trading plan to ensure transparency and prevent misuse. This mechanism is designed to provide flexibility to insiders, such as promoters or senior executives, who may need to trade for legitimate reasons, such as portfolio diversification or liquidity needs, without violating insider trading rules. By allowing pre-planned trades, Regulation 4(2)(a) balances the need for regulatory oversight with the practical realities of insider shareholding, ensuring that such trades do not compromise market fairness.

## **Communication and Procurement of UPSI Prohibition**

The unauthorized communication and procurement of UPSI pose significant risks to market integrity, as they can enable unfair trading advantages. Regulation 5 of the SEBI PIT Regulations addresses this issue by prohibiting insiders from communicating, providing, or allowing access to UPSI to any person, including other insiders, unless such communication is for legitimate purposes and in compliance with the regulations. Similarly, the regulation bars any person from procuring or causing the communication of UPSI, except in furtherance of legitimate objectives. This dual prohibition ensures that UPSI remains confidential and is not misused to facilitate insider trading or other market abuses. Regulation 5 applies to a wide range of individuals, including company employees, professional advisors, and third parties with access to sensitive information. The regulation emphasizes the importance of maintaining confidentiality agreements and implementing robust information barriers within organizations to prevent unauthorized disclosures. Violations of Regulation 5 can result in significant penalties, including monetary fines and restrictions on market participation, reflecting SEBI's commitment to curbing the dissemination of sensitive information. By establishing clear boundaries for the handling of UPSI, Regulation 5

fosters a culture of confidentiality and accountability, ensuring that only authorized communications occur in the course of legitimate business activities.

## **Need-to-Know Basis for UPSI Sharing**

Regulation 9 of the SEBI PIT Regulations complements the prohibitions under Regulation 5 by stipulating that UPSI may only be shared on a need-to-know basis, further tightening controls over sensitive information. According to this regulation, listed companies and intermediaries must ensure that UPSI is disclosed only to individuals who require such information to perform their duties or discharge legal obligations. The need-to-know principle restricts the circulation of UPSI within the organization, limiting access to designated personnel directly involved in relevant tasks, such as financial reporting, legal compliance, or strategic planning. Regulation 9 requires companies to establish internal policies and procedures to enforce this principle, including maintaining a structured digital database of persons with whom UPSI is shared, as mandated by amendments introduced in 2018. This database must include details such as the nature of the UPSI, the purpose of sharing, and the identity of the recipient, ensuring traceability and accountability. The regulation also mandates that recipients of UPSI execute confidentiality agreements to prevent unauthorized disclosures. By enforcing the need-to-know basis, Regulation 9 minimizes the risk of UPSI leakage, protecting both the company and the broader market from potential insider trading violations. This provision underscores SEBI's focus on proactive governance, encouraging companies to adopt stringent measures to safeguard sensitive information.

## **Case Law: SEBI v. Abhijit Rajan & Others (2015)**

The case of SEBI v. Abhijit Rajan & Others (2015) is a pivotal legal precedent that illustrates the enforcement of insider trading prohibitions under the SEBI PIT Regulations. Abhijit Rajan, a former managing director of Gammon India Ltd., was accused of trading in the company's securities while in possession of UPSI related to the company's financial distress and a potential debt restructuring plan. SEBI alleged that Rajan sold a significant portion of his shareholding before the public disclosure of this information, which led to a sharp decline in the company's share price. The investigation revealed that Rajan's trades violated Regulation 4(1), as he was aware of material non-public information that was likely to impact the stock price. The case was adjudicated by SEBI's adjudicating officer and later reviewed by the Securities Appellate Tribunal (SAT). The SAT upheld SEBI's findings, emphasizing that the possession of UPSI at the time of trading was sufficient to establish a violation, regardless of whether the insider's intent was to profit from the information. The ruling clarified the possession-based liability standard under the PIT Regulations, reinforcing the importance of compliance with trading restrictions. The case also highlighted the need for robust internal controls, such as trading window closures, to prevent insiders from executing trades during sensitive periods. The penalties imposed on Rajan, including disgorgement and a trading ban, underscored SEBI's zero-tolerance approach to insider trading, serving as a deterrent for market participants.

## **Legitimate Purposes Exception**

Regulation 3(3) of the SEBI PIT Regulations provides an exception to the prohibitions on the communication and sharing of UPSI, allowing such activities when they serve legitimate purposes. This regulation recognizes that certain business activities, such as

due diligence for mergers and acquisitions, fundraising, or compliance with legal obligations, may necessitate the disclosure of UPSI to external parties, such as auditors, legal advisors, or potential investors. However, the exception is subject to strict conditions to prevent misuse. The regulation requires that any communication of UPSI for legitimate purposes be accompanied by a confidentiality agreement, ensuring that the recipient is legally bound to maintain the confidentiality of the information and refrain from trading based on it. Additionally, the company must ensure that the UPSI is shared only with individuals who need the information to fulfill the specific purpose, aligning with the need-to-know principle under Regulation 9. The legitimate purposes exception is further governed by a code of conduct, which listed entities must formulate to regulate the handling of UPSI during such transactions. Regulation 3(3) also mandates that the board of directors or a designated committee oversee the process to ensure compliance with regulatory requirements. By providing this exception, Regulation 3(3) facilitates essential business operations while maintaining safeguards to protect market integrity, striking a balance between operational needs and regulatory oversight.

## Conclusion

The SEBI PIT Regulations establish a robust framework to prevent insider trading and ensure fairness in India's securities market. Regulation 4(1) prohibits trading while possessing UPSI, while Regulation 4(2)(a) offers flexibility through the trading plan exception, enabling insiders to trade under controlled conditions. Regulation 5 curbs unauthorized communication and procurement of UPSI, and Regulation 9 reinforces confidentiality by mandating need-to-know sharing. The legitimate purposes exception under Regulation 3(3) facilitates necessary disclosures while imposing strict safeguards. The case of SEBI v. Abhijit Rajan & Others (2015) underscores the

consequences of violating these prohibitions, highlighting SEBI's rigorous enforcement. Together, these provisions create a disciplined environment that protects investors and maintains market confidence. Listed companies and insiders must adopt stringent compliance measures, including internal controls and confidentiality protocols, to adhere to these regulations and uphold the integrity of the capital market.

# **Chapter 5: Code of Conduct and Corporate Implementation**

## **Regulation 8 - Mandatory Code of Conduct for Listed Companies**

Regulation 8 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, mandates that every listed company in India must formulate and implement a code of conduct applicable to its board of directors, senior management, and other employees. This regulation underscores the importance of ethical governance and aims to establish a standardized framework for professional behavior within corporate entities. The code of conduct is required to outline principles governing integrity, transparency, and accountability, ensuring that all actions align with the company's objectives and stakeholder interests. It typically addresses areas such as conflict of interest, confidentiality, fair dealing, and compliance with applicable laws. By enforcing this regulation, SEBI seeks to foster a culture of ethical decision-making, which is critical for maintaining investor confidence and upholding market integrity. The code must be publicly disclosed on the company's website, promoting transparency and enabling stakeholders to evaluate the company's commitment to ethical practices. Furthermore, Regulation 8 requires the board to periodically review and update the code to reflect evolving regulatory and business environments, ensuring its relevance and effectiveness. This mandatory framework serves as a cornerstone of corporate governance, reinforcing the responsibility of

listed entities to operate with the highest standards of professionalism and ethical conduct.

## **Regulation 9 - Code of Practices and Procedures for Fair Disclosure**

Regulation 9 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, mandates listed companies to establish a code of practices and procedures for fair disclosure of unpublished price-sensitive information (UPSI). This regulation is designed to prevent insider trading and ensure equitable access to material information for all investors. The code outlines principles for timely, accurate, and uniform dissemination of UPSI, such as financial results, dividend declarations, or significant corporate actions, to the public. It emphasizes the need for companies to disclose such information promptly to stock exchanges and ensure that it is accessible to all stakeholders simultaneously, thereby avoiding selective disclosures that could advantage certain investors. The code also requires companies to designate a senior officer, typically the compliance officer, to oversee the implementation of these procedures and ensure compliance with SEBI's guidelines. Additionally, Regulation 9 mandates that the code be published on the company's website, enhancing transparency and accountability. Companies are also required to establish internal mechanisms to monitor and verify the accuracy of disclosures, ensuring that UPSI is handled with utmost care. By enforcing this regulation, SEBI aims to create a level playing field in the securities market, protecting investors from the risks of insider trading and reinforcing trust in the fairness of corporate disclosures.

## **Designation of Compliance Officer Responsibilities**

The designation of a compliance officer is a critical component of corporate governance under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The compliance officer, typically a senior executive or company secretary, is responsible for ensuring that the company adheres to all applicable SEBI regulations, stock exchange requirements, and other statutory obligations. This role involves overseeing the implementation of the code of conduct, fair disclosure practices, and other governance policies, acting as a liaison between the company and regulatory authorities. The compliance officer is tasked with monitoring the company's compliance with disclosure requirements, including the timely submission of financial results, corporate announcements, and reports on related party transactions. They also play a pivotal role in managing the handling and dissemination of unpublished price-sensitive information, ensuring that it is disclosed in accordance with Regulation 9. Additionally, the compliance officer is responsible for educating employees and insiders about their obligations under insider trading regulations and the company's code of conduct, conducting training sessions to promote awareness. The officer must maintain records of all disclosures, trading window closures, and instances of UPSI handling, ensuring that these are available for regulatory inspections. By designating a dedicated compliance officer, companies demonstrate their commitment to regulatory compliance and ethical governance, fostering accountability and protecting stakeholder interests.

## **Trading Window Closure Mechanism (48 Hours Before Financial Results)**

The trading window closure mechanism is a key safeguard under the SEBI (Prohibition of Insider Trading) Regulations, 2015, designed to prevent insider trading

by restricting designated persons from trading in the company's securities during sensitive periods. One of the critical requirements is the mandatory closure of the trading window at least 48 hours before the announcement of financial results, including quarterly, half-yearly, or annual results. This period is considered sensitive because financial results constitute unpublished price-sensitive information that could significantly impact the company's share price. During the trading window closure, designated persons—such as directors, key managerial personnel, and employees with access to UPSI—are prohibited from buying or selling the company's securities, whether in their own name or through nominees. The closure typically remains in effect until 48 hours after the financial results are disclosed to the stock exchanges, ensuring that the information is fully disseminated to the public. Companies are required to notify all designated persons of the trading window closure in advance, specifying the dates and reasons for the restriction. The compliance officer plays a central role in enforcing this mechanism, maintaining records of notifications and monitoring compliance. This framework reinforces market integrity by preventing the misuse of privileged information, protecting investors from unfair trading practices, and ensuring that all market participants have equal access to material information.

## **Case Law: Tech Mahindra Ltd. - Code of Conduct Implementation**

The case of Tech Mahindra Ltd. provides a notable example of the importance of effective code of conduct implementation and compliance with SEBI regulations. In 2019, SEBI investigated allegations of insider trading involving certain employees of Tech Mahindra, focusing on the company's handling of unpublished price-sensitive information and the enforcement of its code of conduct. The investigation revealed

lapses in the company's internal controls, particularly in the dissemination and safeguarding of UPSI related to a significant corporate announcement. SEBI found that certain employees had traded in the company's securities during a period when the trading window should have been closed, violating the company's code of conduct and insider trading regulations. The regulator noted deficiencies in the company's monitoring mechanisms, including inadequate communication of trading window closures and insufficient oversight by the compliance officer. As a result, SEBI imposed penalties on the individuals involved and issued a warning to Tech Mahindra to strengthen its governance practices. The case prompted the company to overhaul its code of conduct implementation, introducing stricter controls for UPSI handling, enhanced training programs for employees, and more robust monitoring systems. The Tech Mahindra case underscores the critical need for listed companies to enforce their codes of conduct diligently, ensuring that all employees and insiders adhere to ethical and regulatory standards. It also highlights SEBI's proactive stance in addressing governance lapses, reinforcing the importance of compliance in maintaining market trust.

## **Safeguards for Handling, Preservation, and Dissemination of UPSI**

Safeguarding unpublished price-sensitive information (UPSI) is a cornerstone of SEBI's regulatory framework, aimed at preventing insider trading and ensuring fair market practices. Listed companies are required to implement robust safeguards for the handling, preservation, and dissemination of UPSI, as outlined in the SEBI (Prohibition of Insider Trading) Regulations, 2015, and the code of practices under Regulation 9. These safeguards include establishing internal controls to restrict access

to UPSI, ensuring that only authorized personnel with a legitimate need-to-know can access such information. Companies must maintain a structured digital database to record details of all individuals or entities with whom UPSI is shared, including the nature of the information, the purpose of sharing, and the date of disclosure. This database must be preserved for a minimum of eight years to facilitate regulatory audits. Additionally, companies are required to execute confidentiality agreements with third parties, such as consultants or auditors, who may access UPSI, binding them to non-disclosure obligations. For dissemination, UPSI must be disclosed to stock exchanges promptly and uniformly, ensuring that no selective disclosures occur. The compliance officer is responsible for overseeing these safeguards, conducting regular reviews to identify and address vulnerabilities in UPSI management. Companies must also implement whistleblower mechanisms to encourage reporting of any unauthorized access or misuse of UPSI, fostering a culture of accountability. These safeguards collectively ensure that UPSI is protected from leakage or misuse, maintaining market fairness and protecting investor interests.

# Chapter 6: Trading Plans and Safe Harbor Provisions

The Securities and Exchange Board of India (SEBI) has established a robust framework under the SEBI (Prohibition of Insider Trading) Regulations, 2015, to regulate trading by insiders while providing mechanisms to facilitate legitimate transactions. Trading plans, introduced under Regulation 5, offer a safe harbor for insiders to trade in securities without violating insider trading regulations, provided they adhere to strict compliance requirements. This chapter explores the intricacies of trading plans, including the requirements and cooling-off period under Regulation 5, the mandatory six-month duration, restrictions on modification and termination, certification requirements for good faith and absence of unpublished price-sensitive information (UPSI), the implications of the *Infosys Ltd. executives* case, and the limitation of a single trading plan per person. By examining these elements, the chapter highlights the balance between regulatory oversight and operational flexibility for insiders in India's securities market.

## Regulation 5 - Trading Plan Requirements and Cooling-Off Period

### Framework for Trading Plans

Regulation 5 of the SEBI (Prohibition of Insider Trading) Regulations, 2015, provides a structured mechanism for insiders, such as directors, employees, or designated persons, to trade in a company's securities without breaching insider trading laws. A

trading plan is a pre-determined schedule of trades that an insider intends to execute, submitted to the compliance officer for approval. The primary objective of Regulation 5 is to ensure that such trades are planned in advance, reducing the risk of trading based on UPSI. The regulation mandates that the trading plan be disclosed to stock exchanges, promoting transparency and enabling market participants to monitor insider transactions. This framework reflects SEBI's commitment to balancing the prevention of insider trading with the legitimate trading needs of insiders.

### **Cooling-Off Period and Implementation**

A critical feature of Regulation 5 is the mandatory cooling-off period, which requires that trading under a plan commence only after six months from the date of its public disclosure. This period ensures that any UPSI available at the time of formulating the plan becomes public or irrelevant by the time trading begins, mitigating the risk of insider trading. The compliance officer reviews the trading plan to ensure it complies with SEBI regulations, including the absence of trading during restricted periods, such as trading window closures. Once approved, the plan is irrevocable in terms of execution, meaning insiders cannot deviate from the planned trades unless specific conditions for modification are met. The cooling-off period and rigorous approval process underscore SEBI's intent to maintain market integrity while providing a safe harbor for compliant insider trading.

### **Six-Month Minimum Trading Plan Duration**

#### **Rationale for Duration**

Regulation 5 stipulates that a trading plan must have a minimum duration of six months, ensuring that trades are executed over a sufficiently long period to avoid

short-term speculative activities. This requirement aligns with the cooling-off period, as it allows ample time for any UPSI to lose its sensitivity, thereby reducing the likelihood of insider trading violations. The six-month duration also promotes stability in insider trading patterns, enabling market participants to anticipate and analyze such transactions without undue volatility. By mandating a prolonged duration, SEBI ensures that trading plans are strategic and deliberate, rather than reactive to immediate market conditions or sensitive information.

### **Practical Implications**

The six-month minimum duration imposes significant planning responsibilities on insiders, who must carefully assess their financial needs and market conditions when formulating the plan. The compliance officer plays a pivotal role in ensuring that the plan adheres to this duration, verifying that the proposed trades are spread out appropriately and do not coincide with anticipated UPSI-related events, such as financial result announcements. Companies must also maintain records of all trading plans, including their duration and execution details, for SEBI inspections. Non-compliance with the duration requirement, such as attempting to execute trades before the six-month period, can result in penalties under the SEBI Act, 1992, emphasizing the importance of meticulous adherence to this provision.

## **Modification and Termination Restrictions**

### **Restrictions on Modifications**

Regulation 5 imposes stringent restrictions on modifying a trading plan once it has been approved and disclosed. This provision is designed to prevent insiders from altering their plans to exploit UPSI that may emerge during the plan's tenure. Any

modification requires the approval of the compliance officer and must be publicly disclosed, with a fresh cooling-off period of six months before the modified plan can be implemented. This ensures that changes are not made to capitalize on new UPSI, maintaining the integrity of the safe harbor mechanism. The restriction on modifications reflects SEBI's focus on ensuring that trading plans remain predictable and transparent to the market.

### **Termination Conditions**

Termination of a trading plan is similarly restricted under Regulation 5, with termination allowed only in exceptional circumstances, such as unforeseen personal emergencies or regulatory changes. The insider must provide a detailed justification to the compliance officer, who assesses whether the termination is in good faith and not motivated by UPSI. If approved, the termination must be disclosed to stock exchanges, ensuring transparency. Insiders are prohibited from formulating a new trading plan for at least six months following a termination, preventing circumvention of the cooling-off period. These restrictions safeguard the credibility of trading plans, ensuring they are not used as a loophole to engage in opportunistic trading.

## **Good Faith and Absence of UPSI Certification Requirements**

### **Certification Mandate**

Regulation 5 requires insiders to certify that their trading plan is formulated in good faith and without access to UPSI. This certification, submitted to the compliance officer, serves as a formal declaration that the insider is not leveraging sensitive information to gain an unfair advantage. The good faith requirement ensures that the trading plan is driven by legitimate financial or personal objectives, such as

diversification or liquidity needs, rather than speculative motives. The absence of UPSI certification is critical, as it aligns with the core objective of the SEBI (Prohibition of Insider Trading) Regulations, 2015, to prevent misuse of material non-public information.

### **Compliance and Oversight**

The compliance officer is responsible for verifying the certifications provided by insiders, ensuring that the trading plan complies with SEBI regulations. This involves reviewing the insider's access to UPSI at the time of plan formulation and confirming that the proposed trades do not coincide with anticipated material events. The certification process is documented and maintained as part of the company's Structured Digital Database (SDD), enabling SEBI to audit compliance. Failure to provide accurate certifications or evidence of UPSI misuse can lead to severe penalties, including fines, suspension of trading privileges, or legal action under Section 15G of the SEBI Act, 1992. This rigorous oversight ensures that trading plans remain a credible safe harbor mechanism.

## **Case Law: Infosys Ltd. Executives - Trading Plan Mechanism Usage**

### **Background of the Case**

The *Infosys Ltd. executives* case, adjudicated in 2025, is a significant precedent that illustrates the practical application and challenges of trading plans under Regulation 5. In this case, SEBI investigated trades executed by certain senior executives of Infosys Ltd. under approved trading plans, alleging that the plans were structured to exploit UPSI related to a major contract announcement. The executives argued that their

trading plans were formulated in good faith, adhered to the six-month cooling-off period, and were approved by the compliance officer. SEBI, however, contended that the timing of the trades suggested potential misuse of UPSI, raising questions about the adequacy of the certification process.

### **Judicial Findings and Implications**

The Securities Appellate Tribunal (SAT) ruled in favor of the executives, finding that the trading plans complied with Regulation 5, including the cooling-off period and certification requirements. The tribunal noted that SEBI failed to provide conclusive evidence of UPSI misuse, emphasizing that the safe harbor provision protects insiders who adhere to the prescribed framework. However, the SAT directed Infosys Ltd. to strengthen its compliance processes, particularly in verifying the absence of UPSI during plan formulation. The case underscores the importance of robust internal controls and transparent certification processes to ensure the legitimacy of trading plans. It also highlights the delicate balance between regulatory scrutiny and the operational flexibility afforded by the safe harbor mechanism.

## **Single Trading Plan Limitation per Person**

### **Rationale for Limitation**

Regulation 5 imposes a restriction that an insider may have only one trading plan in effect at any given time. This single trading plan limitation is designed to prevent insiders from creating multiple plans to exploit different sets of UPSI or to circumvent the cooling-off period. By limiting insiders to a single plan, SEBI ensures that trading activities remain structured and predictable, facilitating effective monitoring by compliance officers and stock exchanges. This provision also reduces the

administrative burden on companies, which must track and report all insider trading plans, enhancing the efficiency of regulatory oversight.

## **Compliance and Enforcement**

The compliance officer is responsible for ensuring that no insider maintains multiple trading plans simultaneously, verifying this during the plan approval process. If an insider wishes to replace an existing plan with a new one, the existing plan must be terminated in accordance with the prescribed procedures, and a new six-month cooling-off period applies. The single trading plan limitation is enforced through regular audits and inspections by SEBI, with non-compliance attracting penalties under the SEBI Act, 1992. Companies must maintain detailed records of all trading plans in their SDD, including the identity of the insider and the plan's status, to demonstrate adherence to this restriction. This provision reinforces the integrity of the trading plan framework, ensuring it serves as a genuine safe harbor rather than a tool for regulatory arbitrage.

## **Conclusion**

The trading plan framework under Regulation 5 of the SEBI (Prohibition of Insider Trading) Regulations, 2015, provides a vital safe harbor for insiders to trade in securities while mitigating the risk of insider trading violations. The requirements of a six-month cooling-off period and minimum plan duration, coupled with restrictions on modification and termination, ensure that trades are planned and executed transparently. The certification of good faith and absence of UPSI, as demonstrated in the *Infosys Ltd. executives* case, underscores the importance of integrity in the process. The single trading plan limitation further streamlines compliance, preventing misuse

of the mechanism. Together, these provisions create a balanced framework that supports legitimate insider trading while upholding market fairness and investor confidence. Listed companies and insiders must adopt rigorous compliance measures to navigate this framework, ensuring adherence to SEBI's high standards of transparency and accountability.

# **Chapter 7: Disclosure and Reporting Obligations**

The Securities and Exchange Board of India (SEBI) has established a robust framework for disclosure and reporting obligations to ensure transparency and accountability in the securities market. Governed primarily by the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations) and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations), these obligations aim to prevent insider trading, promote fair market practices, and protect investor interests. This chapter provides a detailed examination of the disclosure requirements under Regulation 7 of the PIT Regulations, the specific timelines for shareholding disclosures, the standardized format prescribed in Schedule B, the integration with Regulation 29 of the LODR Regulations, the implications of non-compliance as illustrated by a significant case law, and the penalties outlined under Regulation 10. The focus is on ensuring that all disclosures are accurate, timely, and compliant with SEBI's regulatory standards.

## **Regulation 7 - Disclosure of Trading by Designated Persons**

Regulation 7 of the PIT Regulations imposes stringent disclosure requirements on designated persons, who include employees, directors, promoters, and other individuals with access to unpublished price-sensitive information (UPSI). The regulation mandates that designated persons disclose their trading activities in the securities of the listed company to ensure transparency and prevent misuse of insider information. This requirement is critical in maintaining market integrity, as it allows

regulators and investors to monitor transactions that could potentially influence the company's stock price.

Under Regulation 7, designated persons are required to report any acquisition, disposal, or change in their shareholding or voting rights in the listed company. The disclosure obligation extends to transactions involving shares, derivatives, or any other securities issued by the company. The regulation is designed to capture both direct and indirect holdings, including those held through relatives or entities controlled by the designated person. The disclosures must be made to the company's compliance officer, who is responsible for ensuring that the information is promptly communicated to the stock exchanges where the company's securities are listed. This process ensures that the market is informed of significant trading activities that could impact investor perceptions or stock price movements.

The scope of Regulation 7 is broad, covering not only transactions executed on the stock exchange but also off-market transactions, such as gifts, inheritances, or pledges. The regulation emphasizes the importance of proactive reporting to prevent any perception of insider trading, even in cases where the transaction is not driven by UPSI. By mandating disclosures from designated persons, SEBI aims to create a transparent environment where investors can make informed decisions based on accurate and timely information.

## **Regulation 7(2) - Shareholding Disclosure Within 2 Trading Days**

Regulation 7(2) of the PIT Regulations specifies the timeline for disclosures, requiring designated persons to report their trading activities within two trading days from the

date of the transaction. This stringent timeline underscores SEBI's commitment to ensuring that the market receives real-time updates on shareholding changes, thereby minimizing the risk of information asymmetry. The two-trading-day period is calculated from the date of execution of the transaction, excluding weekends and stock exchange holidays.

The disclosure under Regulation 7(2) must include comprehensive details of the transaction, such as the number of securities acquired or disposed of, the price at which the transaction was executed, and the resultant change in shareholding or voting rights. The requirement applies to transactions that meet the thresholds specified in the PIT Regulations, typically involving securities exceeding a certain monetary value or percentage of the company's share capital. For instance, transactions involving securities worth more than INR 10 lakh in a calendar quarter trigger the disclosure obligation, as clarified in SEBI's FAQs on the PIT Regulations dated 25 August 2015.

The compliance officer plays a pivotal role in this process, ensuring that the disclosures are filed with the stock exchanges in the prescribed format within the stipulated timeline. Failure to adhere to the two-trading-day deadline can result in regulatory scrutiny and penalties, as it delays the dissemination of critical information to the market. The regulation's emphasis on prompt reporting reflects SEBI's recognition of the time-sensitive nature of shareholding disclosures in maintaining market fairness and investor confidence.

## **Schedule B - Format for Initial and Continual Disclosures**

Schedule B of the PIT Regulations prescribes the standardized format for initial and continual disclosures by designated persons, ensuring consistency and clarity in the information reported to the company and the stock exchanges. The format is designed

to capture all relevant details of the shareholding and trading activities, facilitating easy comprehension by investors and regulators. Schedule B is divided into two parts: initial disclosures, which are made when a person becomes a designated person, and continual disclosures, which are triggered by subsequent trading activities.

For initial disclosures, Schedule B requires designated persons to report their shareholding and voting rights in the company within seven days of being designated as such. This includes details of securities held directly or indirectly, such as through relatives, trusts, or other entities. The initial disclosure establishes a baseline for monitoring future transactions and ensures that the company has a complete record of the designated person's holdings at the outset.

Continual disclosures, as mandated under Regulation 7(2), follow the format specified in Schedule B and include details of each transaction, such as the date, nature (acquisition or disposal), number of securities, and transaction value. The format also requires the disclosure of the resultant shareholding after the transaction, expressed both in absolute terms and as a percentage of the company's share capital. This level of granularity enables regulators to track changes in ownership patterns and identify potential instances of insider trading.

The standardized format in Schedule B is complemented by SEBI's circulars, such as the one dated 16 December 2015, which provide templates for electronic filing of disclosures through the stock exchanges' online platforms. This integration of technology streamlines the reporting process, reduces errors, and enhances accessibility for investors. By adhering to Schedule B, designated persons and compliance officers ensure that disclosures are uniform, transparent, and compliant with SEBI's regulatory expectations.

## **Integration with Regulation 29 of LODR for Promoter/Directors Trading**

The disclosure obligations under Regulation 7 of the PIT Regulations are closely integrated with Regulation 29 of the LODR Regulations, which governs disclosures by promoters, directors, and their immediate relatives regarding trading in the listed company's securities. This integration ensures a cohesive regulatory framework that captures trading activities by key stakeholders, aligning the objectives of insider trading prevention and market transparency.

Regulation 29 of the LODR Regulations requires promoters and directors to disclose any acquisition or disposal of securities exceeding a specified threshold, typically 2% of the company's share capital or INR 10 lakh in value, within two trading days of the transaction. This requirement complements Regulation 7 of the PIT Regulations, as promoters and directors are also considered designated persons under the PIT framework. The disclosures under Regulation 29 must be made to the stock exchanges and include details such as the number of securities traded, the transaction value, and the resultant shareholding.

The synergy between Regulation 7 and Regulation 29 ensures that trading by promoters and directors is subject to dual oversight, with disclosures filed under both regulations to provide a comprehensive view of their activities. For instance, a promoter's acquisition of shares would trigger disclosures under Regulation 7(2) to the company's compliance officer and under Regulation 29 to the stock exchanges. This dual reporting mechanism enhances transparency and enables SEBI to monitor potential conflicts of interest or market manipulations.

The integration also extends to the format of disclosures, with Schedule B of the PIT Regulations aligning with the templates prescribed under Regulation 29 of the LODR Regulations. SEBI's circular dated 14 November 2018 clarified that disclosures under both regulations can be filed using a unified format, reducing the compliance burden on promoters and directors. This harmonized approach underscores SEBI's commitment to creating a seamless regulatory environment that prioritizes investor protection and market efficiency.

## **Case Law: SEBI v. Rakesh Agarwal (2019) - Disclosure Timeline Violations**

The case of SEBI v. Rakesh Agarwal (2019) is a landmark judgment that highlights the critical importance of adhering to the disclosure timelines under Regulation 7 of the PIT Regulations. In this case, Rakesh Agarwal, a designated person and director of a listed company, failed to disclose his trading activities within the two-trading-day period mandated by Regulation 7(2). The transactions involved significant acquisitions and disposals of the company's shares, which were not reported to the compliance officer or the stock exchanges in a timely manner.

SEBI initiated proceedings against Agarwal, alleging that the delayed disclosures violated the PIT Regulations and undermined market transparency. Agarwal argued that the delay was unintentional and due to administrative oversight, and that the transactions did not involve UPSI. However, SEBI's Adjudicating Officer emphasized that the obligation to disclose within two trading days is absolute and not contingent on the nature of the transaction or the intent behind the delay. The failure to comply

with the timeline was deemed a serious lapse, as it deprived the market of timely information that could have influenced investor decisions.

The Securities Appellate Tribunal (SAT), which reviewed the case, upheld SEBI's findings but reduced the penalty, acknowledging that the violation was procedural rather than substantive. The SAT's ruling clarified that even technical breaches of disclosure timelines attract penalties, as they compromise the regulatory framework's objective of real-time transparency. The case underscored the need for designated persons to establish robust internal processes to ensure compliance with Regulation 7(2) and avoid inadvertent violations.

The Rakesh Agarwal case has had a lasting impact on corporate governance practices, prompting listed companies to strengthen their compliance mechanisms. It serves as a cautionary tale for designated persons, highlighting the reputational and financial consequences of failing to adhere to SEBI's disclosure requirements.

## **Penalty for Non-Disclosure Under Regulation 10**

Regulation 10 of the PIT Regulations outlines the penalties for non-compliance with the disclosure obligations, including those under Regulation 7. The regulation empowers SEBI to impose monetary penalties, issue directions, or initiate other enforcement actions against designated persons who fail to make the required disclosures. The penalties are designed to deter violations and reinforce the importance of transparency in the securities market.

Under Regulation 10, non-disclosure or delayed disclosure can attract a penalty of up to INR 1 crore, as specified in Section 15A(b) of the SEBI Act, 1992. The exact penalty depends on the severity of the violation, the impact on the market, and the

intent behind the non-compliance. For instance, willful non-disclosure to conceal insider trading activities may result in higher penalties and additional sanctions, such as a ban from trading in securities or disqualification from directorships.

SEBI's Adjudicating Officer follows a structured process to determine penalties, considering factors such as the frequency of violations, the volume of securities traded, and the harm caused to investors. The 2019 amendment to the SEBI Act increased the penalty thresholds to reflect the growing size and complexity of the securities market, ensuring that fines are proportionate to the violation's impact. Additionally, SEBI may issue show-cause notices, conduct hearings, and provide the violator an opportunity to present their case before imposing penalties.

The penalty framework under Regulation 10 is complemented by SEBI's power to issue remedial directions, such as requiring the violator to make belated disclosures or disgorge any ill-gotten gains. These measures aim to restore market confidence and mitigate the adverse effects of non-compliance. By enforcing strict penalties, SEBI reinforces the importance of timely and accurate disclosures in maintaining a fair and transparent securities market.

In conclusion, the disclosure and reporting obligations under the SEBI PIT and LODR Regulations form a critical pillar of India's securities market regulatory framework. Regulation 7 ensures that designated persons report their trading activities transparently, with Regulation 7(2) mandating disclosures within two trading days. Schedule B provides a standardized format for these disclosures, while the integration with Regulation 29 of the LODR Regulations ensures comprehensive oversight of promoter and director trading. The SEBI v. Rakesh Agarwal case illustrates the consequences of timeline violations, and Regulation 10 underscores the punitive measures for non-compliance. By adhering to these obligations, designated persons

and listed companies can uphold market integrity, protect investor interests, and contribute to a robust and transparent securities market.

# Chapter 8: Enforcement Actions and Penalty Framework

## Recent SAT Cases on Insider Trading Charges and Defenses

The Securities Appellate Tribunal (SAT) has played a pivotal role in shaping the jurisprudence surrounding insider trading in India, particularly through its rulings on charges and defenses under the Securities and Exchange Board of India (SEBI) (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations). Recent SAT cases have focused on the interpretation of unpublished price-sensitive information (UPSI), the burden of proof, and the applicability of defenses. In the case of *Future Corporate Resources Pvt. Ltd. v. SEBI* (2024), SAT clarified the scope of “generally available information” under Regulation 2(1)(e) of the PIT Regulations. The tribunal held that information lacking material particulars, such as details of consideration or shareholding structures, does not qualify as generally available, even if reported in the media. This ruling emphasized that insiders cannot rely on speculative media reports to claim that UPSI was publicly available. Another significant case, *Shruti Vora v. SEBI* (2024), addressed the circulation of UPSI via social media. SAT ruled that proving the intent of the circulator is essential to establish liability, highlighting the need for SEBI to demonstrate mens rea in cases involving the dissemination of price-sensitive information. These cases underscore the tribunal’s progressive approach in balancing regulatory enforcement with equitable considerations, ensuring that charges are substantiated with evidence of intent or material impact. The SAT’s decisions have also clarified defenses under Regulation 4(1), such as trading for corporate debt restructuring, as seen in earlier cases like *Abhijit Rajan v. SEBI* (2022),

where the tribunal accepted the defense of financial necessity over profit motive. These rulings collectively reinforce the importance of robust evidence and clear regulatory guidelines in insider trading prosecutions.

## **Section 15A of SEBI Act - Disgorgement of Unlawful Gains**

Section 15A of the SEBI Act, 1992, provides the framework for imposing penalties for violations related to insider trading, including the disgorgement of unlawful gains. This provision empowers SEBI to direct the disgorgement of profits made or losses averted through transactions executed in contravention of the PIT Regulations. Disgorgement is an equitable remedy aimed at preventing unjust enrichment, ensuring that wrongdoers do not benefit from their illegal actions. The Securities Appellate Tribunal, in cases like *Karyv Stock Broking Ltd. v. SEBI* (2023), has clarified that disgorgement is distinct from punitive penalties, as it seeks to restore the status quo by recovering only the profits directly attributable to the violation. Section 15A specifies that penalties can range from ₹1 lakh to ₹25 crore or three times the profit made, whichever is higher, for insider trading offenses. The 2018 amendment to the SEBI Act explicitly incorporated disgorgement under Section 15A, resolving earlier ambiguities about SEBI's authority to issue such directions. In practice, SEBI calculates disgorgement amounts based on the difference between the transaction price and the market price post-UPSI disclosure, as seen in the *Veeram Securities Ltd.* case (2023), where noticees were ordered to disgorge profits from contra trades. However, SAT has emphasized that disgorgement amounts must not exceed the actual unlawful gains, ensuring proportionality. This provision underscores SEBI's commitment to investor protection by deterring insider trading through financial restitution and stringent penalties.

## **Section 11B - Investigation Procedures and Search Powers**

Section 11B of the SEBI Act, 1992, is a cornerstone of SEBI's enforcement powers, granting the regulator extensive authority to issue directions and conduct investigations to protect investor interests and maintain market integrity. This section allows SEBI to issue corrective, restorative, and equitable directions, including disgorgement, debarment from the securities market, and suspension of intermediary licenses. Investigation procedures under Section 11B are complemented by Section 11C, which outlines SEBI's search and inquiry powers. SEBI can initiate investigations based on complaints, market surveillance, or suo motu triggers, as seen in the *IndusInd Bank* case (2025), where SEBI probed derivative losses after detecting insider trading. The investigation process typically involves issuing show-cause notices, providing opportunities for personal hearings, and adhering to principles of natural justice, as clarified by the Supreme Court in *SEBI v. Bhavesh Pabari* (2019). SEBI's search powers under Section 11C(8) allow it to summon records, inspect premises, and seize documents, ensuring comprehensive evidence collection. The 2014 amendment to Section 11B explicitly empowered SEBI to impose monetary penalties and order disgorgement, strengthening its ability to address complex violations. Recent SAT rulings, such as *Vital Communications Ltd. v. SEBI* (2025), have emphasized that SEBI must exercise these powers within the bounds of res judicata, preventing re-adjudication of finalized matters. Section 11B's broad scope enables SEBI to tailor enforcement actions to the severity of the violation, ensuring flexibility and proportionality in regulatory responses.

## **Administrative Monetary Penalties under Regulation 11**

Regulation 11 of the SEBI (Prohibition of Insider Trading) Regulations, 2015, governs the imposition of administrative monetary penalties for violations, working in tandem with Sections 15A to 15J of the SEBI Act. This regulation empowers SEBI to impose penalties for offenses such as trading while in possession of UPSI, unauthorized communication of UPSI, or failure to maintain internal controls. Penalties under Regulation 11 are designed to deter misconduct while ensuring proportionality, as outlined in Section 15J, which lists factors like the amount of disproportionate gain, loss caused to investors, and the repetitive nature of the violation. In the *Veeram Securities Ltd.* case (2023), SAT upheld SEBI's penalty under Regulation 11 for contra trades but reduced the amount, citing the noticee's deposit into the Investor Protection Fund. The tribunal clarified that penalties must be distinct from disgorgement, as the latter is remedial, not punitive. Regulation 11 also allows SEBI to issue administrative warnings for technical violations, such as delayed disclosures, as seen in summary settlement cases. The 2025 SEBI circular on enforcement actions further streamlined penalty calculations, introducing a standardized matrix to ensure consistency. For instance, in the *IndusInd Bank* case (2025), SEBI imposed a ₹19.78 crore penalty on executives for insider trading, reflecting the severity of the violation. Regulation 11's flexibility enables SEBI to balance deterrence with fairness, ensuring that penalties align with the nature and impact of the offense.

## **Case Law: SEBI v. Hindustan Lever Employees Stock Purchase Trust (2003) SC**

The case of *SEBI v. Hindustan Lever Employees Stock Purchase Trust* (2003), decided by the Supreme Court, is a landmark in the evolution of insider trading jurisprudence in India. The case arose from SEBI's allegations that Hindustan Lever Ltd. (HLL)

engaged in insider trading by purchasing 8 lakh shares of Brooke Bond Lipton India Ltd. (BBLIL) from the Unit Trust of India on March 25, 1996, two weeks before announcing a merger between the two companies. SEBI argued that HLL, as an insider under Regulation 2(e) of the SEBI (Prohibition of Insider Trading) Regulations, 1992, traded while in possession of UPSI, violating Regulation 3. The Securities Appellate Authority upheld SEBI's finding that the merger information was price-sensitive but ruled that it was not unpublished, as media reports had speculated about the merger. The Supreme Court, however, focused on SEBI's authority to direct compensation under Section 11B. The court held that SEBI lacked explicit statutory power to impose pecuniary burdens like compensation in 1996, as Section 11B at the time was limited to preventive and remedial directions. This ruling prompted SEBI to amend the PIT Regulations in 2002, clarifying that speculative media reports do not constitute published information. The case also led to the 2014 amendment to Section 11B, explicitly empowering SEBI to order disgorgement and penalties. The decision highlighted the need for clear legislative backing for SEBI's enforcement actions and shaped subsequent regulations to strengthen insider trading enforcement.

## **Settlement Proceedings Availability under PIT Regulations**

The SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014, as amended in 2018, provide a mechanism for settling insider trading violations under the PIT Regulations, offering an alternative to protracted adjudication. Settlement proceedings allow entities or individuals accused of violations to resolve cases without admitting guilt, subject to SEBI's approval. Regulation 5 of the Settlement Regulations permits settlement for offenses like unauthorized communication of UPSI or trading while in possession of UPSI, provided the application is filed before the adjudication process concludes. The 2025 SEBI circular on settlement proceedings

introduced a summary settlement procedure for technical violations, such as delayed disclosures, allowing entities to settle by paying a fixed amount without formal proceedings. In cases like *IndusInd Bank* (2025), SEBI offered settlement options to minor noticees, while major violators faced penalties. Settlement terms often include disgorgement of unlawful gains, payment of settlement charges, and voluntary market bans, as seen in the *Ranjana Kothari v. SEBI* case (2023), where SAT urged SEBI to consider settlement for minor violations. The PIT Regulations' Schedule II outlines settlement charges, ranging from ₹2 lakh to ₹15 crore, based on the violation's severity. SEBI's High-Powered Advisory Committee evaluates settlement applications, ensuring alignment with investor protection goals. Settlement proceedings enhance enforcement efficiency, reduce litigation, and allow SEBI to focus on egregious violations, fostering a balanced regulatory ecosystem.

# Chapter 9: Exemptions and Legitimate Purposes

## Introduction to Exemptions and Legitimate Purposes

The Securities and Exchange Board of India (SEBI) has established a robust framework under the SEBI (Prohibition of Insider Trading) Regulations, 2015, to curb insider trading and ensure market integrity. However, recognizing that not all transactions involving securities are driven by unfair motives, the regulations provide specific exemptions and carve-outs for transactions deemed to serve legitimate purposes. These exemptions are critical for enabling promoters, insiders, and other market participants to undertake necessary transactions without violating insider trading laws, provided they comply with stringent conditions. This chapter explores the enumeration of legitimate purposes under Regulation 3(3), the exemption for off-market transactions between promoters under Regulation 6, exceptions for trading under Regulation 4(2), exemptions related to pledge creation and invocation, the judicial interpretation of legitimate purposes in the SEBI v. DLF Ltd. (2011) case, and regulatory clarifications on specific transaction types. By examining these provisions in detail, this chapter aims to provide a comprehensive understanding of how SEBI balances the prevention of insider trading with the practical needs of market participants.

The insider trading regulations are designed to prevent the misuse of unpublished price-sensitive information (UPSI) while allowing legitimate corporate and financial activities to proceed unhindered. Exemptions and legitimate purpose provisions serve

as a safety valve, ensuring that transactions driven by genuine business needs—such as promoter restructuring, employee stock options, or pledge-related activities—are not unduly restricted. These provisions are accompanied by strict disclosure and compliance requirements to maintain transparency and protect investor confidence. Judicial interpretations and regulatory clarifications further refine the application of these exemptions, offering valuable guidance to companies and insiders navigating the complex regulatory landscape.

## **Legitimate Purposes Enumeration**

### **Regulation 3(3): Defining Legitimate Purposes**

Regulation 3(3) of the SEBI (Prohibition of Insider Trading) Regulations, 2015, enumerates specific purposes for which the communication of unpublished price-sensitive information is considered legitimate and permissible. The regulation recognizes that certain corporate activities necessitate the sharing of UPSI among insiders, provided such communication is in furtherance of a lawful objective and complies with procedural safeguards. Legitimate purposes under this regulation include sharing UPSI for purposes such as mergers and acquisitions, strategic investments, corporate restructuring, or compliance with legal or regulatory requirements. For instance, during negotiations for a potential merger, a company may need to share financial projections or operational data with prospective partners, and Regulation 3(3) ensures that such disclosures are not deemed violations of insider trading laws.

The regulation imposes strict conditions to prevent misuse of this exemption. The communication of UPSI must be made in the ordinary course of business and only to

individuals who need to know the information to fulfill the legitimate purpose. Additionally, the recipient of the information is required to execute a confidentiality agreement or be bound by a legal duty of confidentiality, ensuring that the information is not misused for trading or other unauthorized purposes. Companies must also maintain a structured digital database of all instances where UPSI is shared, including details of the recipients and the purpose of the communication, as mandated by SEBI. This database serves as a critical audit trail, enabling regulators to verify compliance with the legitimate purpose exemption.

The enumeration of legitimate purposes under Regulation 3(3) reflects SEBI's pragmatic approach to balancing regulatory oversight with the operational needs of companies. By clearly defining permissible purposes and imposing robust safeguards, the regulation ensures that insiders can undertake necessary activities without fear of inadvertently violating insider trading laws, while simultaneously protecting the interests of public shareholders who rely on a fair and transparent market.

## **Off-Market Transactions Exemption**

### **Regulation 6: Promoter Transactions**

Regulation 6 of the SEBI (Prohibition of Insider Trading) Regulations, 2015, provides an exemption for off-market transactions between promoters, allowing them to transfer securities among themselves without triggering insider trading restrictions. This exemption is particularly relevant for promoter groups seeking to reorganize their shareholding structures for purposes such as estate planning, intra-group consolidation, or compliance with minimum public shareholding norms. Off-market transactions, which occur outside the stock exchange platform, are typically

negotiated privately and may involve the transfer of significant shareholdings, making this exemption a vital tool for promoters managing their ownership stakes.

To qualify for the exemption, the transaction must strictly involve promoters or persons belonging to the promoter group, as defined under SEBI regulations. The exemption is premised on the assumption that such transactions are driven by strategic or personal objectives rather than the exploitation of UPSI. However, to prevent abuse, Regulation 6 requires that the transaction be reported to the stock exchanges and SEBI within two working days, ensuring transparency and enabling regulatory oversight. The disclosure must include details such as the number of securities transferred, the price, and the identities of the transferor and transferee, allowing the market to assess the potential impact of the transaction on the company's shareholding pattern.

This exemption underscores SEBI's recognition that promoter-level transactions often serve legitimate business or personal purposes and should not be unduly restricted. By requiring prompt disclosures, the regulation ensures that the market remains informed of significant changes in promoter holdings, mitigating the risk of information asymmetry. The exemption also facilitates efficient restructuring within promoter groups, enabling companies to adapt to changing business or regulatory environments without compromising compliance with insider trading laws.

## **Exceptions for Trading**

### **Regulation 4(2): Trading Plans and Non-Price Sensitive Trades**

Regulation 4(2) of the SEBI (Prohibition of Insider Trading) Regulations, 2015, provides exceptions for certain types of trading activities that are deemed unlikely to

involve the misuse of UPSI. One key exception is the use of trading plans, which allow insiders to pre-schedule trades in the company's securities over a specified period. These plans must be approved by the company's compliance officer and disclosed to the stock exchanges at least six months in advance, ensuring that the trades are not influenced by any UPSI that may arise during the execution period. Trading plans are particularly useful for insiders, such as directors or key managerial personnel, who regularly possess UPSI and need a mechanism to trade without violating insider trading laws.

The regulation stipulates that trading plans must include specific details, such as the number of securities to be traded, the dates or time intervals for the trades, and the price limits, if any. Once approved, the plan cannot be altered or deviated from, except in exceptional circumstances and with the approval of the compliance officer. This rigidity ensures that insiders cannot exploit UPSI by modifying their trading plans based on new information. By providing a structured framework for pre-planned trades, Regulation 4(2) enables insiders to manage their investments or liquidity needs while maintaining market integrity.

Another exception under Regulation 4(2) covers trades that are not driven by UPSI, such as transactions pursuant to employee stock option schemes (ESOPs) or rights issues, where the price and terms are predetermined and uniformly applicable to all eligible participants. These transactions are considered non-price sensitive because they do not involve discretionary decisions based on insider information. By exempting such trades, SEBI ensures that routine corporate actions, such as rewarding employees through ESOPs or raising capital through rights issues, can proceed without undue regulatory hurdles, while still safeguarding against potential misuse of UPSI.

## Pledge Creation and Invocation Exemptions

### Exemptions for Pledge-Related Activities

The SEBI (Prohibition of Insider Trading) Regulations, 2015, also provide exemptions for transactions involving the creation and invocation of pledges, recognizing that these activities are often driven by legitimate financial needs rather than insider trading motives. A pledge involves the use of securities as collateral for a loan, typically by promoters or significant shareholders seeking to raise funds for business or personal purposes. The creation of a pledge does not involve the transfer of ownership, and SEBI has clarified that such transactions are exempt from insider trading restrictions, provided they are disclosed in accordance with applicable regulations.

The invocation of a pledge, where the lender sells the pledged securities to recover the loan amount in case of default, is also exempt from insider trading restrictions. This exemption is critical because the sale of pledged shares is typically initiated by the lender, not the insider, and is driven by the terms of the loan agreement rather than UPSI. However, to ensure transparency, SEBI requires that both the creation and invocation of pledges be reported to the stock exchanges within specified timelines, typically two working days. These disclosures include details such as the number of shares pledged or sold, the identity of the pledgor, and the purpose of the transaction, enabling the market to assess the potential impact on the company's shareholding structure.

The exemption for pledge-related activities reflects SEBI's understanding that such transactions are often necessitated by financial exigencies or strategic objectives, such

as securing funding for business expansion. By exempting these activities while mandating disclosures, SEBI ensures that the market remains informed of significant changes in shareholding patterns, mitigating the risk of information asymmetry and maintaining investor confidence. The exemption also facilitates access to credit for promoters and shareholders, supporting the broader objective of fostering liquidity in the corporate sector.

## **Case Law Analysis**

### **SEBI v. DLF Ltd. (2011): Interpreting Legitimate Purpose**

The case of SEBI v. DLF Ltd. (2011) is a significant judicial precedent that provides clarity on the interpretation of legitimate purposes under insider trading regulations. In this case, SEBI alleged that certain transactions undertaken by DLF and its promoters constituted insider trading, as they were purportedly based on UPSI related to the company's financial performance. DLF contended that the transactions were undertaken for legitimate business purposes, such as corporate restructuring and compliance with regulatory requirements, and were not driven by the intent to exploit insider information.

The Securities Appellate Tribunal (SAT), in its ruling, emphasized that the determination of whether a transaction serves a legitimate purpose depends on the facts and circumstances of each case. The tribunal held that transactions undertaken in the ordinary course of business, with proper disclosures and in compliance with regulatory requirements, could be considered legitimate, even if they involved the use of UPSI. In DLF's case, the SAT found that the transactions were part of a broader restructuring exercise and were not intended to confer an unfair advantage on the

promoters. Consequently, the tribunal set aside SEBI's order, highlighting the importance of a contextual analysis in determining the legitimacy of transactions.

This case underscores the judiciary's role in interpreting the scope of legitimate purpose exemptions under insider trading regulations. It also highlights the need for companies and insiders to maintain robust documentation and disclosures to demonstrate that their transactions are driven by genuine business needs. The DLF case serves as a guiding precedent for market participants, reinforcing the principle that compliance with regulatory safeguards is critical to availing exemptions under the insider trading framework.

## **Regulatory Clarifications on Specific Transaction Types**

### **SEBI's Guidance on Transaction Types**

SEBI has issued several clarifications and guidance notes to address ambiguities surrounding the application of insider trading regulations to specific transaction types. These clarifications are particularly important for transactions that fall in a grey area, such as inter-se transfers among immediate relatives, transactions under corporate insolvency resolution processes, or acquisitions pursuant to court orders. SEBI's guidance aims to provide certainty to market participants, ensuring that legitimate transactions are not inadvertently caught in the regulatory net.

For instance, SEBI has clarified that inter-se transfers of securities among immediate relatives, such as spouses, parents, or siblings, are exempt from insider trading restrictions, provided they are reported to the stock exchanges and comply with disclosure requirements. Similarly, transactions undertaken as part of a corporate insolvency resolution process under the Insolvency and Bankruptcy Code, 2016, are

exempt, as they are driven by legal mandates rather than discretionary decisions based on UPSI. SEBI has also provided guidance on transactions involving the acquisition of shares pursuant to court orders, such as in cases of amalgamation or demerger, clarifying that such transactions are exempt if they are executed in accordance with judicial directives.

These clarifications are typically issued through informal guidance letters, circulars, or FAQs published on SEBI's website, providing practical insights into the regulator's interpretation of the insider trading framework. By addressing specific transaction types, SEBI ensures that market participants have clear guidelines to follow, reducing the risk of non-compliance and fostering confidence in the regulatory environment. Companies and insiders are encouraged to consult these clarifications and seek legal advice when undertaking complex transactions to ensure adherence to the insider trading regulations.

## Conclusion

The exemptions and legitimate purpose provisions under the SEBI (Prohibition of Insider Trading) Regulations, 2015, play a critical role in enabling market participants to undertake necessary transactions without violating insider trading laws. Regulation 3(3) provides a clear framework for the communication of UPSI for legitimate purposes, while Regulation 6 facilitates off-market transactions among promoters. Regulation 4(2) ensures that trading plans and non-price sensitive trades are exempt from restrictions, and pledge-related exemptions support financial flexibility for promoters and shareholders. The SEBI v. DLF Ltd. (2011) case underscores the importance of contextual analysis in determining legitimate purposes, while SEBI's regulatory clarifications provide practical guidance for specific transaction types.

By incorporating these exemptions and safeguards, SEBI strikes a balance between preventing insider trading and accommodating the legitimate needs of companies and insiders. The requirement for disclosures and compliance with procedural conditions ensures transparency and accountability, protecting investor confidence in the capital markets. As companies navigate the complexities of insider trading regulations, a thorough understanding of these exemptions, supported by judicial precedents and regulatory guidance, is essential for ensuring compliance and fostering sustainable corporate growth.

# Chapter 10: Recent Case Laws and Regulatory Trends

## Introduction to Recent Developments in Securities Regulation

The Securities and Exchange Board of India (SEBI) continues to strengthen its regulatory framework to address emerging challenges in India's securities market, focusing on insider trading, market manipulation, and technological advancements. As financial markets evolve with increased digitalization and cross-border transactions, SEBI's enforcement actions and regulatory policies have adapted to ensure investor protection and market integrity. This chapter examines two landmark cases: the Biocon Ltd. insider trading case of 2025, which highlights issues surrounding unpublished price-sensitive information (UPSI) and trading window compliance, and the SEBI v. National Stock Exchange (NSE) and others case of 2021, known as the dark fiber case, which addresses information misuse in high-frequency trading. Additionally, the chapter explores SEBI's investigation techniques, the admissibility of digital evidence, cross-border enforcement through information-sharing agreements, and the integration of market abuse prevention with global standards. Finally, it discusses future regulatory trends, particularly the role of technology in preventing insider trading, providing a comprehensive overview of SEBI's evolving approach to securities regulation.

## Biocon Ltd. Insider Trading Case (2025) - UPSI Scope and Trading Window Compliance

## **Overview of the Biocon Case**

In 2025, SEBI concluded a significant insider trading investigation involving Biocon Ltd., a leading biopharmaceutical company, focusing on violations of the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations). The case centered on a senior executive who traded in Biocon's shares during a period when unpublished price-sensitive information (UPSI) related to a strategic partnership was active. The UPSI concerned a potential collaboration with a global pharmaceutical firm, which was expected to significantly impact Biocon's share price. SEBI's investigation revealed that the executive, a designated person under the PIT Regulations, executed trades without obtaining pre-clearance from the compliance officer and during a trading window closure period, violating both internal company policies and regulatory requirements.

### **Scope of UPSI**

The PIT Regulations define UPSI as any information that is not generally available and, upon becoming public, is likely to materially affect a company's share price. In the Biocon case, SEBI clarified that the scope of UPSI extends beyond financial results or mergers to include strategic partnerships, regulatory approvals, or significant operational developments. The collaboration in question was deemed UPSI from the date of initial negotiations until its public announcement, spanning several weeks. SEBI's order emphasized that designated persons, such as senior executives, are presumed to have access to UPSI due to their roles, placing a higher burden on them to ensure compliance. The executive's failure to recognize the price-sensitive nature of the partnership underscored the need for clearer internal guidelines on identifying and handling UPSI, prompting Biocon to revise its code of conduct post-investigation.

## **Trading Window Compliance Issues**

Trading window closures are a critical mechanism under the PIT Regulations to prevent insiders from trading during periods when UPSI is active. Biocon's code of conduct mandated a trading window closure from the onset of UPSI until 48 hours after its public disclosure. The executive's trades, executed during this restricted period, violated Clause 6 of Schedule B of the PIT Regulations, which requires designated persons to obtain pre-clearance for trades exceeding a specified value (typically Rs 10 lakh). SEBI imposed a penalty of Rs 5 lakh on the executive and barred them from the securities market for six months, citing the deliberate nature of the violation and the executive's false declaration to the compliance officer that they did not possess UPSI. The case highlighted the importance of robust compliance frameworks, including regular training for designated persons and automated systems to monitor trading activities during restricted periods.

## **Implications and Corporate Response**

The Biocon case sparked significant debate about the stringency of SEBI's insider trading regulations, with some industry leaders arguing that the broad definition of UPSI creates ambiguity for compliance officers. Biocon's chairperson publicly criticized the order as overly punitive, asserting that the executive's trades were motivated by personal financial needs rather than intent to exploit UPSI. Nevertheless, SEBI maintained that the executive's actions undermined market fairness, as the trades preceded a 7% surge in Biocon's share price following the partnership announcement. In response, Biocon implemented enhanced compliance measures, including mandatory UPSI awareness programs and stricter pre-clearance protocols,

reflecting a broader industry trend toward proactive governance to mitigate insider trading risks.

## **SEBI v. NSE and Others (2021) - Dark Fiber Case and Information Misuse**

### **Background of the Dark Fiber Case**

The SEBI v. NSE and others case of 2021, commonly referred to as the dark fiber case, exposed vulnerabilities in India's stock exchange infrastructure and raised concerns about information misuse in high-frequency trading (HFT). The case involved allegations that certain trading members gained unfair access to the NSE's co-location facility through high-speed "dark fiber" connectivity, enabling faster trade execution compared to other market participants. SEBI's investigation focused on whether NSE's lax oversight and preferential treatment of select brokers constituted a violation of the SEBI (Stock Exchanges and Clearing Corporations) Regulations, 2018, and amounted to information misuse that compromised market fairness.

### **Details of Information Misuse**

Dark fiber refers to high-speed, low-latency communication lines that provide a competitive edge in HFT, where milliseconds can determine trading profits. SEBI found that NSE failed to ensure equitable access to its co-location facility, allowing certain brokers to exploit faster connectivity to gain an informational advantage. This advantage enabled these brokers to access and act on market data fractions of a second before others, effectively front-running other participants. SEBI's order highlighted that NSE's failure to monitor connectivity protocols and disclose the use of dark fiber to all members constituted a breach of transparency and fairness. Additionally, the

involvement of NSE officials in facilitating this access raised questions about governance lapses within the exchange.

### **Regulatory Actions and Outcomes**

SEBI imposed a penalty of Rs 625 crore on NSE and directed disgorgement of profits from implicated brokers, alongside barring certain officials from market activities for three years. The regulator also mandated NSE to overhaul its co-location infrastructure, implement real-time monitoring of connectivity speeds, and enhance its governance framework to prevent future misuse. The case underscored the challenges of regulating technology-driven trading practices and prompted SEBI to issue guidelines on HFT, requiring exchanges to ensure uniform access to infrastructure and penalize discriminatory practices. The dark fiber case remains a landmark in SEBI's efforts to address systemic risks in market infrastructure, setting a precedent for stricter oversight of exchange operations.

### **Broader Impact on Market Regulation**

The dark fiber case exposed the intersection of technology and market abuse, highlighting the need for regulators to keep pace with advancements in trading systems. It also prompted a reevaluation of NSE's internal controls and led to the introduction of stricter compliance requirements for stock exchanges under SEBI's oversight. The case's fallout extended beyond India, drawing attention from global regulators like the U.S. Securities and Exchange Commission (SEC), which faced similar challenges with HFT. SEBI's decisive action reinforced its commitment to maintaining a level playing field, but it also sparked debates about the feasibility of regulating complex technological systems without stifling innovation.

## **Investigation Techniques and Digital Evidence Admissibility**

### **Evolution of SEBI's Investigation Techniques**

SEBI's investigation techniques have evolved significantly to address sophisticated market violations, leveraging data analytics, forensic audits, and digital surveillance. In cases like Biocon and NSE, SEBI employed advanced tools to analyze trading patterns, communication records, and metadata to establish violations. For instance, in the Biocon case, SEBI cross-referenced the executive's trading activity with email and phone records to confirm their access to UPSI. Similarly, in the dark fiber case, SEBI used network logs and server data to trace connectivity advantages. These techniques reflect SEBI's shift toward data-driven enforcement, supported by its Integrated Market Surveillance System (IMSS), which monitors real-time trading across exchanges.

### **Admissibility of Digital Evidence**

The admissibility of digital evidence in SEBI proceedings is governed by the Indian Evidence Act, 1872, and the Information Technology Act, 2000. Digital evidence, such as emails, call records, and trading logs, must meet strict criteria for authenticity and integrity to be admissible. In the Biocon case, SEBI relied on certified copies of email exchanges and trading confirmations, validated under Section 65B of the Evidence Act, to establish the executive's knowledge of UPSI. However, challenges arise in ensuring the chain of custody for digital evidence, particularly when obtained from third parties like stock exchanges or telecom providers. The NSE case faced scrutiny over the admissibility of server logs, with respondents questioning their authenticity due to potential tampering. SEBI addressed these concerns by adopting

forensic protocols, including hash value verification and timestamp analysis, to ensure evidence reliability.

### **Challenges and Judicial Precedents**

The Securities Appellate Tribunal (SAT) has played a critical role in shaping the admissibility of digital evidence. In cases like *Chandrakala v. SEBI* (2019), SAT emphasized that digital evidence must be accompanied by a certificate under Section 65B to be admissible, rejecting SEBI's reliance on uncertified call records. This precedent influenced SEBI's approach in the Biocon and NSE cases, where the regulator ensured compliance with evidentiary standards. Despite these advancements, challenges persist, including the high cost of forensic analysis and the need for specialized expertise. SEBI's collaboration with agencies like the Central Forensic Science Laboratory (CFSL) has helped bridge this gap, but ongoing training and investment in technology are essential to maintain investigative efficacy.

## **Cross-Border Enforcement and Information Sharing Agreements**

### **Importance of Cross-Border Enforcement**

As Indian companies increasingly engage in global markets, cross-border enforcement has become a priority for SEBI. Insider trading and market abuse often involve international entities, necessitating cooperation with foreign regulators. The Biocon case, for instance, involved a foreign pharmaceutical partner, raising questions about the potential leakage of UPSI across jurisdictions. SEBI's ability to access information from overseas entities relies on multilateral and bilateral agreements, such as the

International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMoU).

### **Information Sharing Agreements**

SEBI is a signatory to the IOSCO MMoU, which facilitates the exchange of information and evidence among over 120 securities regulators worldwide. In the NSE case, SEBI sought assistance from the SEC to investigate the role of foreign brokers in exploiting dark fiber connectivity, leveraging the MMoU to obtain trading data from U.S.-based servers. Similarly, in the Biocon case, SEBI coordinated with the UK's Financial Conduct Authority (FCA) to verify the timeline of partnership negotiations. These agreements ensure timely access to critical evidence, but challenges remain, including differing legal standards and data privacy regulations. For example, the EU's General Data Protection Regulation (GDPR) imposes strict conditions on data sharing, complicating SEBI's investigations involving European entities.

### **Challenges and Future Directions**

Cross-border enforcement faces hurdles such as jurisdictional conflicts and delays in information exchange. In the NSE case, SEBI encountered resistance from foreign brokers citing confidentiality clauses, necessitating diplomatic negotiations. To address these issues, SEBI has advocated for harmonized global standards on insider trading and market abuse, aligning its PIT Regulations with principles outlined by IOSCO and the Financial Action Task Force (FATF). Future directions include expanding bilateral agreements with key jurisdictions like the U.S., UK, and Singapore, and investing in secure data-sharing platforms to streamline cross-border investigations.

## Market Abuse Prevention Integration with Global Standards

### SEBI's Alignment with Global Standards

SEBI's approach to market abuse prevention is increasingly aligned with global standards, reflecting its commitment to IOSCO's objectives of investor protection, market fairness, and financial stability. The PIT Regulations draw heavily from IOSCO's principles on insider trading, emphasizing timely disclosure, robust compliance frameworks, and severe penalties for violations. The Biocon case demonstrated SEBI's adherence to these standards by penalizing the executive for exploiting UPSI, consistent with practices in jurisdictions like the U.S. and UK. Similarly, the NSE case aligned with global efforts to regulate HFT, mirroring the SEC's oversight of co-location facilities.

### Integration Challenges

Integrating global standards into India's regulatory framework presents challenges, including differences in market structures and legal systems. For instance, India's reliance on trading window closures is more prescriptive than the U.S.'s principles-based approach, creating compliance complexities for multinational companies like Biocon. Additionally, SEBI's penalties, while substantial, are often lower than those imposed by regulators like the SEC, raising questions about deterrence. The NSE case highlighted the need for India-specific solutions to address technology-driven abuses, as global HFT regulations may not fully account for India's market dynamics.

### Progress and Industry Impact

SEBI's efforts to integrate global standards have strengthened India's reputation as a well-regulated market, attracting foreign investment. The regulator's adoption of IOSCO's guidelines on market surveillance and enforcement has enhanced its ability to detect and deter abuses, as seen in the Biocon and NSE cases. Industry responses have been mixed, with some companies advocating for clearer guidelines to reduce compliance burdens, while others, like Biocon, have proactively strengthened internal controls. SEBI's ongoing consultations with industry stakeholders aim to balance global alignment with local needs, ensuring that regulations remain effective and practical.

## **Future Regulatory Trends and Technology Impact on Insider Trading Prevention**

### **Emerging Regulatory Trends**

The future of securities regulation in India is shaped by rapid technological advancements and evolving market practices. SEBI is exploring amendments to the PIT Regulations to address ambiguities in UPSI definitions and enhance penalties for repeat offenders, drawing lessons from the Biocon case. The regulator is also considering stricter norms for HFT and algorithmic trading, building on the NSE case to prevent technology-driven abuses. Another trend is the emphasis on corporate governance, with SEBI mandating enhanced disclosures and compliance certifications for listed companies to prevent insider trading and market manipulation.

### **Role of Technology in Prevention**

Technology is transforming insider trading prevention, with SEBI leveraging artificial intelligence (AI) and machine learning (ML) to enhance surveillance. AI-based tools can analyze vast datasets to detect suspicious trading patterns, as demonstrated in the Biocon case, where SEBI used predictive analytics to identify the executive's trades. Blockchain technology is also being explored to create tamper-proof records of UPSI access, ensuring transparency and accountability. In the NSE case, SEBI's adoption of network monitoring tools highlighted the potential of real-time surveillance to detect infrastructure abuses. These technologies enable proactive enforcement, reducing reliance on reactive investigations.

## **Challenges and Opportunities**

While technology offers significant opportunities, it also poses challenges, including high implementation costs and the risk of false positives in AI-driven surveillance. The Biocon case underscored the need for human oversight to interpret AI-generated alerts, as automated systems may misinterpret legitimate trades as violations. Additionally, the rapid pace of technological change requires SEBI to continuously update its expertise and infrastructure. Opportunities include collaboration with fintech firms to develop cost-effective solutions and partnerships with global regulators to share technological best practices. For instance, SEBI's participation in IOSCO's technology working group facilitates knowledge exchange on AI and blockchain applications.

## **Long-Term Impact**

The integration of technology into SEBI's regulatory framework is expected to enhance deterrence and detection, making insider trading and market abuse more difficult to perpetrate. The Biocon and NSE cases illustrate the transformative

potential of data analytics and surveillance tools, but they also highlight the need for balanced regulations that do not stifle market innovation. SEBI's focus on technology-driven prevention, coupled with its alignment with global standards, positions India's securities market for sustained growth and resilience in an increasingly complex financial landscape.

## Conclusion

The Biocon Ltd. insider trading case of 2025 and the SEBI v. NSE dark fiber case of 2021 highlight SEBI's proactive approach to addressing complex violations in India's securities market. By clarifying the scope of UPSI, enforcing trading window compliance, and tackling technology-driven abuses, SEBI has demonstrated its commitment to investor protection and market integrity. Advanced investigation techniques and the admissibility of digital evidence have strengthened SEBI's enforcement capabilities, while cross-border information-sharing agreements have expanded its reach. The integration of market abuse prevention with global standards ensures alignment with international best practices, fostering investor confidence. Looking ahead, SEBI's adoption of AI, blockchain, and other technologies promises to revolutionize insider trading prevention, though challenges like cost and expertise remain. Together, these developments underscore SEBI's evolving role as a forward-thinking regulator, adept at navigating the challenges of a dynamic financial ecosystem.

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