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INSIDER TRADING IN INDIA: LEGAL FRAMEWORK, ETHICAL IMPLICATIONS, AND EVOLUTION OF REGULATORY PRACTICES

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ABSTRACT

Financial market integrity suffers from major ethical along with legal challenges due to insider trading activities. When participants use unpublicized price-sensitive information for personal gain it breaks market equilibrium while it destroys investor trust and harms corporate responsibility. This research paper analyzes Indian insider trading regulation while tracing the development of rules made by SEBI and the Companies Act of 2013 against international governance standards. The research study investigates insider trading as a white-collar offense by exploring its deceptive behavior as well as violations of fiduciary responsibilities and financial manipulation practices. Judicial court decisions and regulatory modifications demonstrate how suspicious evidence helps courts determine who possesses UPSI. This research analysis demonstrates through historical explanations alongside legal complexities and moral implications that strong enforcement systems must exist to safeguard both market stability and investor welfare.

Introduction

Insider trading through the use of unpublished price-sensitive information (UPSI) for dealing in securities remains a serious ethical dilemma along with legal obstacle affecting financial markets worldwide. Insider trading provides illegal advantages to people who have access to information through unfair means which violates the core principles of equal market opportunity. Insider trading creates ethical problems because public investors lack privileged information which insiders use against them for their individual benefit. The illegal practice of insider trading leads to devastating consequences which affect both organizational reputation together with stakeholder confidence and systematic economic resource management systems.

The anti-insider trading regulations in India have evolved significantly throughout the years. Through the SEBI (Prohibition of Insider Trading) Regulations, 2015 and previous actions of the Patel and Abid Hussain Committees India has

built progressive safeguards against this improper practice. These financial regulations keep adapting to fight complex misconduct through rigorous rule definitions as well as compliance standards and punishment mechanisms. Proof of UPSI possession continues to be the most challenging aspect of ethical violations since courts must depend on circumstantial evidence to establish it.

This paper investigates insider trading as a violation of ethical norms and establishes its place among white-collar offenses and financial wrongdoing patterns. Studying India's historical insider trading regulations combined with case analysis and current enforcement system evaluation leads to an identification of regulatory gaps and evidence-based reforms. The research connects three disciplines by examining law with ethics alongside policy to show support for markets that display transparency and balance and sustainability.

1. Legal and Ethical Implications of Insider Trading

Financial markets encounter severe ethical and legal challenges from insider trading activities that relate to the mishandling of unpublished price-sensitive information (UPSI). The practice allows selected people to gain an unlawful advantage that produces both transparency and equality issues thus diminishing market stability while breaking investor trust. A legal structure for insider trading purposes works to solve its ethical problems while upholding necessary ethical norms that maintain financial systems integrity.

Ethical Implications

Insider trading causes serious market ethical violations because it destroys both fairness and equality principles. Exclusivity of UPSI stands as the unethical aspect of insider trading because business insiders get access to information which enables them to execute profitable trades beyond what public investors can achieve. The public investor operates at a permanent disadvantage because they must use only information that becomes available publicly. The unethical behavior damages mutual trust between traders and causes investor trust to decline. The study presented by Y Papa Rao et al. shows how insider trading reduces retail investor presence in financial markets and breaks down their moral structure.¹

The ethical violation of insider trading leads to severe problems with corporate accountability. Ethical violations become worse when senior executives or board members get involved because such circumstances result in negative reputational effects and stakeholder trust dissolution. The research of Abhirami B and Arya Kuttan demonstrates that these patterns show inadequate internal safety structures combined

with weak ethical monitoring systems in their study about insider trading laws.²

Insider trading leads to problems in economic resource distribution across societal groups while creating deeper inequalities between them. The practice allows insiders to take advantage of secret information thus leading to greater wealth differences while pushing away foreign investment and weakening regulatory trust. Nishith Desai Associates highlighted in their primer how insider trading damages both corporate governance operations and market trust systems.³

Legal Implications

Most territories have adopted severe legal frameworks to combat insider trading because they classify it as market abuse. The fundamental legal instrument to prevent insider trading operations in India is established through SEBI (Prohibition of Insider Trading) Regulations, 2015. The regulations establish insider trading as securities transactions conducted through UPSI or aiding such transactions with UPSI. Through rigorous requirement enforcement the regulations help preserve honest market processes while making trading more transparent and fair.

The punishments for insider trading violations include multiple potential penalties that include monetary fines as well as imprisonment time. Using powers under Section 15G of the SEBI Act the authorities gain authority to enforce penalties against wrongdoers in order to discourage such behavior. The Companies Act, 2013 granted violators personal liability until Section 195 got dropped in 2017 thus transferring prosecution powers to SEBI. The modification of prosecution rights adds complexity to the legal process of insider trading cases.

Courts have made crucial rulings which demonstrate how law treats insider trading

¹ Y Papa Rao, *Insider Trading: An Unethical Practice*, available at <https://nluassam.ac.in/docs/Journals/NLUALPR/Volume-7/Article-5.pdf>

² *Insider Trading Laws in India - Pertinence and Problems*, available at <https://thelawbrigade.com/wp-content/uploads/2019/05/Abhirami-Arya.pdf>

³ *Insider Trading Regulations - A Primer*, available at https://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Papers/Insider_Trading_Regulations_-_A_Primer.pdf

offenses. In the case of *Amit Jain v. Regulations 11 and 14* under the SEBI (Insider Trading) Regulations, 1992 received critical discussion from the Delhi High Court which confirmed SEBI's responsibility to protect investors through compliance implementation.⁴ The enforcement of insider trading laws faces difficulties because these regulations continue to transform in the scene.

Balancing Legal and Ethical Perspectives

The laws designed to stop insider trading merge with ethical questions because they address social consequences of such offenses. Insider trading misconduct produces two major consequences because it inflicts financial harm upon private investors while simultaneously wrecking market order and eroding institutional trust.

2: White-Collar Crimes and Their Link to Insider Trading

White-collar offenses are non-violent financial crimes which perpetrators achieve through deception as well as manipulation and misuse of trust relationships. Businesses usually cover these offenses through regular operational activities which makes identification very difficult. Insider trading represents the core white-collar criminal offense which enables perpetrators to use authority and privileged information for obtaining unjust monetary reward. The research section examines white-collar crime characteristics together with their relationship to insider trading practices while evaluating their financial effects on markets and corporate governance.

Defining White-Collar Crimes

The main perpetrators who commit white-collar offenses originate from administrative roles including corporate executives and financial advisors together with state-level government officials. Such offenses remain hard to detect because they perform their criminal activities without visible violence and through deceitful

means. The common types of white-collar offenses include fraud together with embezzlement alongside bribery as well as money laundering and insider trading. According to Stuart P. Green white-collar offenses occur when someone breaks trust inside a professional workplace to gain personal or business benefits.⁵

People who perpetrate white-collar offenses base their criminal activities on financial needs combined with their goals for wealth accumulation and requirements of asset preservation. Each instance of insider trading enables participants to utilize UPSI through which they obtain illegal benefits that other market participants do not possess. The unethical disclosure of confidential information produces market ethical conflicts that result in financial system inequalities.

Insider Trading as a White-Collar Crime

Insider trading aligns with the characteristics of white-collar crimes in several ways:

1. **Deceptive Practices:** Insiders hide important company secrets before the public receives them in their full disclosure. People who access UPSI use it to trade stocks for substantial earnings without delivering equal trade opportunities to investors. Private information serves at Nishith Desai Associates as a tool for insiders who use it to generate personal profits.⁶
2. **Breach of Fiduciary Duty:** When corporate individuals fail to protect company interests along with stakeholder value they break their fiduciary duty responsibilities. Insider trading breaks the fiduciary duty because individuals choose individual financial gain instead of following ethical responsibilities. Corporate accountability

⁴ *Amit Jain v. SEBI* [2018], available at <https://indiankanoon.org/doc/156203961>

⁵ *The Concept of White Collar Crime in Law and Legal Theory*, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=521762

⁶ *Insider Trading Regulations - A Primer*, available at https://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Papers/Insider_Trading_Regulations_-_A_Primer.pdf

together with governance systems suffer because of trust violations.

3. **Market Manipulation:** Financial markets experience faulty operation because people who have privileged information gain unfair market advantages through insider trading practices. Retail investors who use public information only become victims when insider trading takes place which reduces market engagement and creates market volatility. Studies about insider trading laws explain the relationship between market dynamics and insider trading knowledge by Abhirami B. and Arya Kuttan.⁷

Technological Influence on White-Collar Crimes

White-collar crimes exist thanks to modern technology although technological progress also helps identify these illicit activities. The complex trading systems along with modern communication platforms help criminals carry out undetected insider trading activities. UPSI abuse becomes possible through encryption methods and hidden accounts which protect the perpetrators from detection. Data analytics along with real-time monitoring systems serve as surveillance mechanisms which technology allows for detection purposes.

Interplay Between Insider Trading and Other Financial Crimes

The practice of insider trading commonly connects with two other common white-collar offenses which are securities fraud and money laundering. The multiple criminal activities which link together increase both ethical and legal consequences that require extensive regulatory systems.

1. **Money Laundering:** Insider trading profits undergo money laundering in order to hide their source and enable their entry into legal financial activity.

The process of using money derived from insider trading transactions makes it harder to enforce rules against insider trading and financial misconduct penalties.

2. **Securities Fraud:** Insider trading sometimes prompts individuals to spread untruthful statements which can modify stock market valuations. The traders disseminate false information or artificially increases data value while using price shifts to create such opportunities per Sarada Saha's research.⁸

Insider trading benefits from the combination with these offenses because it demonstrates an urgent requirement for strong enforcement procedures which target all financial offenses.

Implications and Consequences

Insider trading along with similar white-collar criminal activities produces major destructive effects. Insider trading along with related offenses destroys financial institution trust and drives away foreign investment while bringing financial markets into strategic instability. Societal inequalities grow because wealth ends up only in the hands of privileged individuals through these offenses. The Indian regulatory body SEBI executes essential functions through SEBI (Prohibition of Insider Trading) Regulations, 2015 to solve issues related to insider trading.

Recommendations for Addressing White-Collar Crimes

The prevention of insider trading along with its connection to white-collar crimes requires regulatory frameworks to develop anticipatory safeguards. Key recommendations include:

- The detection of doubtful trading patterns must be improved through better technological surveillance tools.

⁷ *Insider Trading Laws in India - Pertinence and Problems*, available at <https://thelawbrigade.com/wp-content/uploads/2019/05/Abhirami-Arya.pdf>

⁸ *An Overview on White Collar Crime*, available at <https://www.lawjournals.net/assets/archives/2023/vol5issue3/5079-1692610677647.pdf>

- The prevention of unethical practices will benefit from increased punishment of fiduciary violations.
- Mandatory transparency in disclosures combined with clear ethical conduct standards should be implemented as standard procedures.

The complexities of white-collar crimes in financial systems find their peak representation through insider trading activities. Regulators must implement remedies that protect market integrity by fixing the ethical problems and fiduciary failures along with market manipulation issues.

3: Evolution of Insider Trading Laws in India

The insider trading regulations of India experienced progressive development through historical events as well as government policies and international market guidelines. The research tracks India's history of insider trading regulation through its essential points and leadership changes at SEBI as well as international benchmarking standards.

Historical Foundations

The practice of insider trading emerged in India due to the trading methods employed by the East India Company. The lack of regulations for insider trading spanned more than one hundred years until the issue officially received attention in the 1970s. United States developed a comprehensive insider trading system after the Great Depression through the Securities Act of 1933 and its following amendment in 1934. Financial regulators around the world used these measures for establishing their financial rules.⁹

In 1925 the Bombay Securities Contract Act was the first legislative move to establish regulations for securities trading in Indian jurisdiction. Between 1928 to 1938 investors incurred considerable financial losses because the regulations lacked enough clearly stated terms. After the Defense of India Act introduced

approval necessities for capital funding in 1939 the Capital Issue (Control) Act established the Controller of Capital Issues (CCI) through its enactment in 1947. The insufficient nature of insider trading legislation allowed corporate insiders to extract personal benefits from unpublished information.

Emergence of Insider Trading Regulations

Detecting insider trading as a major offense emerged in the 1940s through directors and auditors gaining advantage from confidential information. P.J. Thomas suggested establishing a National Investment Commission for insider trading regulation but no harsh steps were taken after his proposal.¹⁰

The issue emerged as a public matter during the late 1970s which led to the Sachar Committee proposing Companies Act of 1956 modifications. Enhanced transparency and accountability were the objective of these amendments since they created mandatory disclosures for insider transactions. The insufficient enforcement measures proved unable to stop unlawful business activities.¹¹

The Patel Committee and Legislative Reforms

The Indian government established the Patel Committee in 1984 as a body to evaluate stock markets alongside their unlawful insider trading activities. The committee delivered a report which denounced unclear laws for regulating insider information misuse and suggested alterations to the Securities Contracts (Regulation) Act of 1956. Insider trading penalties under the recommendations consisted of monetary fines and imprisonment sentences along with loss of profits from illegal activities. The report specified that insider trading occurs when someone uses non-disclosed price-sensitive information for

⁹ (Historical Evolution of the Securities Market and Insider Trading Regulations: A Comparative Study of India and the USA, available at <http://eelet.org.uk>).

¹⁰ Report on the Regulation of the Stock Exchanges in India – 1948 (P J Thomas), available at <http://www.sebi.gov.in/History/HistoryReport1948.pdf>

¹¹ Articles – Manupatra” Hari Shankar Singh, available at <https://articles.manupatra.com/article-details/INSIDER-TRADING-BEHIND-CLOSED-DOORS>

securities trading thereby underscoring the importance of rigorous regulatory frameworks.¹²

The Abid Hussain Committee and SEBI Regulations

A major shift occurred in India's regulatory framework when the Abid Hussain Committee started its operations in 1989. The committee worked towards passing the SEBI Insider Trading Regulations of 1992 which defined insider criteria and undisclosed price-sensitive material while penalizing violations of both categories. SEBI continued to extend the range of regulatory measures under their oversight as market challenges changed throughout the years.

The year 2002 introduced mandatory disclosure requirements alongside ethical codes of conduct by SEBI to drive better compliance. Insider Trading regulations adopted by SEBI achieved their most significant improvement in 2015 with their implementation. These regulations adopted international standards to define insiders better and added trading strategies which prevented unethical conduct. SEBI regulations have evolved according to the assessment presented by Vaibhav Shahi to fight insider trading practices.¹³

Section 195 of the Companies Act, 2013

The Companies Act of 2013 criminalized insider trading, with Section 195 prohibiting key management personnel from sharing UPSI. However, in 2017, this clause was omitted, and SEBI was granted authority to prosecute offenders under Section 458. This transition created ambiguity regarding the applicable regulations for insider trading cases. Today, insider trading falls under SEBI's 2015 regulations, as well as provisions under Sections 12A and 15G of the SEBI Act (*Companies (Amendment) Act, 2017*, available at <https://www.sebi.gov.in>).

Case Studies and Judicial Decisions

Insider trading legislation received definition through decisive judicial proceedings which led to its regulatory modifications. For instance, the Supreme Court in *Chintalapati Srinivasa Raju v. The Securities and Exchange Board of India* through its legal decision confirmed the strict definition of "insider" from the 1992 regulations which stressed the need for fiduciary duty and ethical business practices. Proof of having UPSI required the evaluation of circumstantial evidence during this case due to existing procedural difficulties.¹⁴

The adjudication order in the *Naval Chaudhary* case established that Regulation 3 under SEBI's 1992 regulations validates the conditions for insider trading offenses. An adjudication order stressed maintaining investor trust as well as market integrity throughout the process.¹⁵

Comparisons with International Practices

India drafted its insider trading regulations based on worldwide standards by adopting key elements from U.S. inspections and regulations that emerged during the Great Depression. The regulations introduced by the United States in its early period to control insider trading created global standards that India used to build SEBI regulations from the Securities Exchange Act of 1934. European Economic Letters performs a comparative analysis which examines similarities and dissimilarities existing between Indian and U.S. regulatory frameworks for insider trading.¹⁶

Indian insider trading law evolution demonstrates how the country advances financing sectors by building fair market conditions with full transparency. India's regulatory evolution has demonstrated the need for striking the right balance between investor security and market transparency

¹⁴ *Chintalapati Srinivasa Raju v SEBI* [2017], available at <https://indiankanoon.org/doc/156203961>

¹⁵ *Securities and Exchange Board of India, Adjudication Order, 2011*, available at https://www.sebi.gov.in/enforcement/orders/feb-2011/adjudication-order-in-respect-of-mr-naval-choudhary-in-the-matter-of-m-s-albright-and-wilson-chemicals-india-limited_16374.html

¹⁶ *Historical Evolution of the Securities Market and Insider Trading Regulations: A Comparative Study of India and the USA*, available at <http://eelet.org.uk>

¹² *Patel Committee Report, 1984*

¹³ *Regulation and Analysis of the Concept of Insider Trading: A Critical Analysis*, available at <https://www.lawctopus.com/academike/regulation-and-analysis-of-the-concept-of-insider-trading-a-critical-analysis/>

between the East India Company period and SEBI's present-day regulations. The progress in modern regulatory technology has not eliminated persistent difficulties regarding the documentation of UPSI and ethical standard enforcement. The implementation of improved solutions will help India build up its regulatory system to support fair market operations.

The evolution of insider trading laws in India reflects the nation's commitment to fostering transparent and equitable financial markets. From unregulated practices during the East India Company era to the enactment of SEBI's comprehensive regulations, India's journey underscores the importance of balancing investor protection and market integrity. Despite advancements, challenges remain in proving possession of UPSI and enforcing ethical standards. By addressing these gaps, India can strengthen its regulatory framework and ensure a fair trading environment.

4: Circumstantial Evidence and its Role in Establishing UPSI Possession

Proving possession of unpublished price-sensitive information (UPSI) is a critical challenge in insider trading cases. While direct evidence may conclusively demonstrate UPSI possession, it is often unavailable, necessitating reliance on circumstantial evidence. This section explores the role and significance of circumstantial evidence in insider trading investigations, highlighting key judicial cases and methodologies employed to establish the link between a noticee and UPSI.

Direct vs. Circumstantial Evidence

Direct evidence in insider trading cases refers to definitive proof, such as emails, meeting records, or witness testimonies, that show an individual had access to UPSI. However, obtaining direct evidence is often impractical due to the secretive nature of insider trading. Circumstantial evidence, on the other hand, relies on inference, enabling investigators to draw reasonable conclusions from patterns,

timing, and behaviors associated with UPSI possession.

In the case of *V.K. Kaul v. Securities and Exchange Board of India*, the absence of direct evidence led the Securities Appellate Tribunal (SAT) to rely on circumstantial evidence. Affidavits from insiders indicated no communication of UPSI, yet circumstantial details, such as trading patterns and proximity to UPSI events, influenced the adjudicating officer's decision.¹⁷

Trading Patterns and Timing

One of the most common approaches to circumstantial evidence is analyzing trading patterns in relation to UPSI publication dates. Courts often evaluate the alignment between a noticee's transactions and the release of price-sensitive information. For instance, in *Shreejesh Harindranath and Ors*, the adjudicating officer observed that the noticee's relative purchased shares in the company immediately prior to the release of favorable financial results. Despite no history of holding shares, the timing suggested insider knowledge.¹⁸

Similarly, the Supreme Court in *Chintalapati Srinivasa Raju v. Securities and Exchange Board of India* upheld circumstantial evidence to establish UPSI possession. The appellant's share disposal closely coincided with the falsification of company accounts, reinforcing the inference of UPSI-based trading.¹⁹

Relational Proximity

In cases where direct communication of UPSI is suspected but unproven, courts assess relational proximity between the noticee and insiders. For example, familial or professional relationships may indicate the likelihood of UPSI exchange. In *Shreejesh Harindranath's* case, the brother's concurrent trading activities

¹⁷ *V.K. Kaul v. SEBI* [2012], available at <https://www.sebi.gov.in>

¹⁸ *Adjudication Order in re Shreejesh Harindranath and Sandeep AC (SpiceJet Ltd)* [2020], available at <https://www.sebi.gov.in>

¹⁹ *Chintalapati Srinivasa Raju v. SEBI* [2017], available at <https://indiankanoon.org>

suggested consultation with the insider despite the absence of direct evidence.²⁰

Professional Roles and Access

The noticee's position within an organization often determines their access to UPSI. Individuals in senior roles, finance departments, or acquisition teams are presumed to have proximity to sensitive information. In *Haresh Parmanand Jashnani & Ors v SEBI*, circumstantial evidence demonstrated that the noticee's managerial position enabled access to UPSI regarding acquisition plans.²¹

Conversely, lower-ranking positions may limit access to UPSI. In *Chintalapati Srinivasa*, the court distinguished between executive and non-executive roles, observing that the latter had reduced involvement in daily operations and decision-making processes.²²

Challenges and Criticisms

While circumstantial evidence plays a pivotal role, it is not without limitations. Critics argue that reliance on inference may lead to wrongful accusations or insufficient proof for conviction. SEBI has faced criticism for inconsistent application of circumstantial evidence standards in cases like *V.K. Kaul*, where the balance of proof required for insider trading allegations was contested.

Circumstantial evidence remains an indispensable tool in proving UPSI possession, particularly when direct evidence is unavailable. By analyzing trading patterns, relational proximity, and professional roles, investigators can establish reasonable links between noticees and UPSI. However, to enhance credibility and fairness, regulatory bodies must refine methodologies for evaluating circumstantial evidence, ensuring a balanced approach to enforcement and justice.

Conclusion and Recommendations

Insider trading represents an ethical faux-pas against legal financial market conduct because it damages trust in investors along with corporate governance and market integrity systems. Research finds insider trading to be unethical because it produces financial disparities and uses unpublished price-sensitive information while simultaneously damaging market trust. The analysis identifies three main legal hurdles in tackling insider trading which involve proving possession of unpublished price-sensitive information while also relying on circumstantial evidence together with constant developments in laws to prevent this white-collar offense.

The laws governing insider trading in India have shown continuous advancement through SEBI's regulatory mechanisms since the unregulated era of the East India Company. Multiple bodies including the Patel and Abid Hussain Committees formed milestones in the history of insider trading regulation while the SEBI (Prohibition of Insider Trading) Regulations of 1992 and 2015 show how these laws became more complex and advanced. The regulatory system faces three main difficulties which include insufficient enforcement mechanisms and the criminal assistance provided by technology as well as the unclear interpretation of evidence based on circumstances during legal cases. Insider trading regulations need to find a correct proportion between investor safeguards and market integrity..

To address these gaps and strengthen the regulatory ecosystem, several policy recommendations are proposed:

1. **Strengthening the UPSI Framework:** Clearer definitions and stricter safeguards around UPSI are essential to curbing its misuse. Regulatory bodies should enforce robust corporate policies that delineate access control mechanisms and ensure compliance with confidentiality measures.

²⁰ *Adjudication Order in re Shreejesh Harindranath*, available at <https://www.sebi.gov.in>

²¹ *Haresh Parmanand Jashnani & Ors v SEBI* [2021], available at <https://www.sebi.gov.in>

²² *Chintalapati Srinivasa Raju v SEBI*, available at <https://indiankanoon.org>

2. **Enhancing Technological Surveillance:** Leveraging advanced data analytics, artificial intelligence, and real-time monitoring systems can significantly enhance the detection of unusual trading patterns and potential insider activities. These technologies can act as both preventive and investigative tools in insider trading cases.
3. **Mandatory Disclosures and Reporting:** Expanding the scope of disclosure requirements for directors, officers, and connected persons is critical. Implementing stricter timelines and oversight for mandatory reporting can promote greater transparency.
4. **Education and Ethical Training:** Companies must invest in training programs to educate employees and management about ethical practices, fiduciary duties, and insider trading consequences. Cultivating an ethical corporate culture can act as a deterrent to white-collar crimes.
5. **Judicial Clarity on Circumstantial Evidence:** Courts must refine the evidentiary standards for insider trading cases, balancing the need for strong enforcement with fairness in legal proceedings. This can involve clearer guidelines on the admissibility and weight of circumstantial evidence.

regulators and corporations to establish ethical standards that ensure profit-seeking activities cannot violate trust and fairness standards.

The implementation of stringent legal penalties remains essential but it must be combined with a transparent environment which builds trust throughout the market system. Public officials who unite ethical elements with technological improvements and legal systems develop sustainable regulations which reduce financial misbehavior while supporting market stability and fairness.

Such research establishes the need for complete systems approach to combat insider trading. The development of complex financial markets requires all stakeholders and