INDIAN JOURNAL OF LEGAL REVIEW

VOLUME 5 AND ISSUE 8 OF 2025

INSTITUTE OF LEGAL EDUCATION

INDIAN JOURNAL OF LEGAL REVIEW

APIS – 3920 – 0001 | ISSN - 2583-2344

(Open Access Journal)

Journal's Home Page – https://ijlr.iledu.in/

Journal's Editorial Page - https://ijlr.iledu.in/editorial-board/

Volume 5 and Issue 8 of 2025 (Access Full Issue on - https://ijlr.iledu.in/volume-5-and-issue-7-of-2025/)

Publisher

Prasanna S,

Chairman of Institute of Legal Education

No. 08, Arul Nagar, Seera Thoppu,

Maudhanda Kurichi, Srirangam,

Tiruchirappalli – 620102

Phone : +91 94896 71437 - info@iledu.in / Chairman@iledu.in

INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]

VOLUME 5 AND ISSUE 8 OF 2025

APIS – 3920 - 0001 *(and)* ISSN - 2583-2344

Published by

Institute of Legal Education

https://iledu.in

SECURITIES CLASS ACTIONS IN INDIA: A CRITICAL ANALYSIS OF MARKET ANOMALIES AND INVESTOR REMEDIES

AUTHOR - KOUSTAV BHATTACHARJEE, STUDENT AT AMITY LAW SCHOOL, NOIDA (AUUP)

BEST CITATION - KOUSTAV BHATTACHARJEE, SECURITIES CLASS ACTIONS IN INDIA: A CRITICAL ANALYSIS OF MARKET ANOMALIES AND INVESTOR REMEDIES, *INDIAN JOURNAL OF LEGAL REVIEW (IJLR)*, 5 (8) OF 2025, PG. 194-212, APIS – 3920 – 0001 & ISSN - 2583-2344.

ABSTRACT

The liberalization of India's financial markets over the past three decades has ushered in unprecedented levels of investor participation, capital mobilization, and regulatory sophistication. However, this growth has also exposed significant systemic vulnerabilities, particularly in the context of market anomalies—rare but high-impact disruptions that defy traditional assumptions about price behavior and market efficiency. Among such anomalies, the phenomenon of ***negative pricing****, especially in derivatives markets, has emerged as a pressing concern. The* ***April 2020 negative pricing event involving crude oil futures on the Multi Commodity Exchange (MCX)*** *marks a watershed moment in Indian commodity trading history. It revealed profound limitations not only in market infrastructure and regulatory preparedness, but also in the legal remedies available to aggrieved investors.*

This dissertation critically analyzes the intersection between market anomalies and the collective legal remedies—or lack thereof—available to Indian investors. Using the April 2020 MCX incident as a central case study, it explores how the absence of a well-defined securities class action mechanism in India impedes effective redressal when thousands of investors suffer similar harm from a market-wide event. The study begins with a detailed conceptualization of ***market anomalies****, categorizing phenomena such as negative pricing, flash crashes, insider trading, and information asymmetry, and tracing their disruptive impact on investor portfolios, market confidence, and systemic stability. It emphasizes that such anomalies are not only technical aberrations, but legal flashpoints that stress-test the adequacy of existing investor protection frameworks.*

At the heart of the dissertation lies a ***case study analysis of the April 2020 MCX crude oil futures collapse****, in which the WTI benchmark settled at –$37.63 per barrel, leading to a settlement price of –₹2,884 on MCX. This unprecedented event resulted in aggregate investor losses of hundreds of crores, raising critical questions about the roles and responsibilities of brokers, exchanges, clearing corporations, and regulators. The study investigates the causes of the anomaly—including global supply chain shocks, storage constraints, and exchange-specific contract design flaws—and critiques the regulatory and legal responses. It finds that while SEBI and MCX responded with temporary measures and risk containment frameworks, the broader question of investor compensation remained unaddressed.*

To contextualize India's shortcomings, the dissertation offers a ***comparative analysis*** *of securities class action mechanisms in jurisdictions such as the* ***United States, Canada, and Australia****. These systems, by permitting collective investor suits and statutory liability regimes, provide a robust framework for investor redress in the wake of market anomalies. Their regulatory and judicial responses to similar anomalies offer instructive models for potential reform in India.*

In its final chapters, the dissertation advances a set of ***targeted recommendations****, including legislative amendments to securities laws to incorporate a dedicated securities class action framework, procedural reforms to facilitate collective investor grievances, strengthening SEBI's*

investor compensation and surveillance functions, and enhanced transparency and accountability mechanisms for market infrastructure institutions. The study also advocates for institutional support to investor associations and public-interest litigation mechanisms as complementary tools of collective redress.

In conclusion, this dissertation argues that the ***April 2020 negative pricing event should not be seen as an isolated incident****, but as a powerful catalyst for reform. It exposes deep structural gaps in India's investor protection regime and highlights the urgent need for a coherent, well-enforced collective redress mechanism. At a time when retail participation in Indian markets is surging, ensuring that investors are not only protected from fraud, but also from systemic breakdowns and regulatory blind spots, is vital for maintaining the legitimacy and resilience of India's capital markets*

Keywords

{Securities Class Actions, Investor Protection, Market Anomalies, Negative Pricing, Crude Oil Futures, Multi Commodity Exchange (MCX), April 2020 Market Incident, SEBI, Securities Law in India, Collective Investor Remedies, Derivatives Market Regulation, Financial Market Volatility, Legal Redress Mechanisms, Class Action Litigation, SEBI Act, Companies Act, Securities Contracts (Regulation) Act, Securities Appellate Tribunal (SAT), Comparative Securities Law, United States Securities Litigation, Investor Grievance Redressal, Systemic Risk, Commodity Derivatives, Flash Crashes, Regulatory Reform}

CHAPTER 1
INTRODUCTION

The Indian capital market has evolved dramatically over the last few decades, transitioning from a fragmented and under-regulated environment into a modern, technology-driven financial system overseen by a specialized regulatory authority. As the market has matured, investor participation has increased in both breadth and depth, spanning retail, institutional, and foreign investor classes. However, the sophistication of the Indian securities market also entails new vulnerabilities—chief among them being the susceptibility to market anomalies. These anomalies, while statistically rare, often trigger outsized effects on market stability and investor confidence, challenging the resilience of the legal and regulatory framework that exists to safeguard investor interests.

Among the most striking examples of a market anomaly in recent Indian market history is the **April 2020 crude oil futures negative pricing incident on the Multi Commodity Exchange (MCX)**. On that day, the West Texas Intermediate (WTI) crude oil futures contract, serving as the benchmark for global crude oil pricing, closed at an unprecedented –$37.63 per barrel. This was mirrored in the Indian market when the MCX April crude oil futures contract settled at –₹2,884 per barrel. This event marked the first instance of a negative settlement price in Indian commodity futures history and highlighted significant gaps in the legal and regulatory framework—particularly concerning investor protection and recourse.

For thousands of market participants—especially retail investors and small proprietary traders—this incident caused devastating financial losses. In most cases, the losses were realized despite adherence to required margin obligations, sound trading strategy, and an absence of misconduct. What the event brought to the forefront was the potential for systemic anomalies to disproportionately harm investors who have little to no ability to foresee or mitigate such extreme risks. It also revealed the lack of a meaningful remedy mechanism that could be deployed when multiple investors are affected simultaneously by a market structure failure, regulatory oversight lapse, or contractual ambiguity.

At the heart of this dissertation lies a critical problem: while Indian securities law has developed substantially in terms of rule-making, enforcement, and surveillance, it

remains conspicuously under-equipped when it comes to **collective investor remedies**. There exists no formal, comprehensive class action framework tailored to securities law, particularly one that can respond to market anomalies with systemic implications. The existing legal architecture—including the SEBI Act, 1992; the Securities Contracts (Regulation) Act, 1956 (SCRA); and the Companies Act, 2013—offers certain fragmented remedies, such as investor grievance redressal mechanisms, civil litigation, and limited class action provisions under company law. However, these mechanisms are procedurally complex, substantively narrow in scope, and poorly suited to address incidents like the April 2020 anomaly.[186]

This lacuna is particularly significant in the context of **financial derivatives markets**, where volatility is inherently higher and where price discovery is influenced by international benchmarks, speculative activity, and technical trading. The evolution of Indian exchanges like MCX into globally integrated platforms necessitates a corresponding evolution in legal infrastructure—one that ensures adequate protection for investors in both normal and exceptional market conditions. [187]

The significance of investor protection in such a setting cannot be overstated. Investor confidence is the cornerstone of a healthy capital market. Regulatory structures that fail to offer swift, meaningful remedies in times of collective loss not only deter participation but also impair market efficiency.. In this light, investor protection is not merely a moral imperative but a functional necessity for market sustainability.[188]

The overarching aim of this dissertation is to **critically analyze the current state of investor remedies in India in the context of market anomalies**, with a particular focus on class action-style relief. The study seeks to address several key research questions:

- What constitutes a market anomaly in the context of Indian securities and derivatives markets, and what forms do such anomalies typically take?
- How do such anomalies inflict harm upon investors, both retail and institutional?
- What legal and regulatory remedies currently exist for affected investors, and to what extent are these remedies accessible, adequate, and effective?
- How did SEBI and MCX respond to the April 2020 negative pricing incident, and what legal questions arose from the episode?
- How do other jurisdictions (such as the U.S., Canada, and Australia) approach securities class actions, and what lessons can India draw from these frameworks?
- What reforms are necessary to build a comprehensive, accessible, and effective collective investor redress mechanism in India?

CHAPTER 2
CONCEPTUAL FRAMEWORK: MARKET ANOMALIES AND INVESTOR HARM

2.1 Introduction

In the realm of securities law and financial economics, understanding how markets behave—and more importantly, how they deviate from expected behavior—is critical to constructing an effective investor protection framework. Market anomalies are those deviations. They are statistically irregular, theoretically unexpected, and often devastating in impact. From a legal perspective, they present a unique challenge: traditional principles of tort, contract, and statutory protection often falter when multiple investors are harmed simultaneously by a market-wide dysfunction rather than by a discrete instance of fraud or misrepresentation.

This chapter explores the theoretical and empirical foundations of market anomalies, focusing on how they arise, their classifications, and the ways they inflict harm upon investors. Special attention is given to the phenomenon of **negative pricing**—a striking anomaly that has defied conventional economic assumptions—

[186] SEBI Act, 1992, No. 15, Acts of Parliament, 1992.
[187] https://www.tandfonline.com/doi/full/10.1080/10242694.2023.2191535
[188] Sandeep Parekh, "The Future of Securities Class Actions in India," NSE Working Paper, 2019.

and its implications for both retail and institutional investors. The chapter concludes by establishing the legal rationale for **collective investor remedies**, especially class actions, as a response to the widespread and systemic harm that anomalies frequently produce.

2.2 Defining Market Anomalies

A **market anomaly** is typically understood as a price behavior or outcome that contradicts the Efficient Market Hypothesis (EMH), which posits that asset prices fully reflect all available information at any given time. Under the EMH, prices should follow a random walk, driven by rational expectations and risk-adjusted returns. However, in practice, markets often experience departures from this ideal, manifesting in persistent mispricings, irrational investor behavior, structural breakdowns, or technical failures. These anomalies may be episodic (as in flash crashes), cyclical (as in January effects), or structural (as in negative pricing events).[189]

From a regulatory and legal standpoint, market anomalies are particularly problematic because they may arise without fraud or misconduct. Unlike insider trading or misrepresentation, which are clearly actionable under securities law, anomalies can result from **complex interplay of market microstructure, liquidity mismatches, regulatory gaps, or systemic shocks**.[190] This makes them difficult to categorize under existing legal frameworks, which typically rely on attribution of liability.

Common categories of market anomalies include:

- **Price Manipulation Anomalies**: Where prices deviate from fair value due to artificial trades or circular transactions (e.g., pump-and-dump schemes).
- **Information Asymmetry Anomalies**: Where some investors act on material non-public information, creating unfair price movement.
- **Behavioral Anomalies**: Driven by irrational market behavior such as herd dynamics, panic selling, or overreaction to news.
- **Microstructure-Induced Anomalies**: Arising from the mechanics of order execution, liquidity constraints, or algorithmic trading errors.
- **Macroeconomic and External Shock Anomalies**: Caused by sudden geopolitical events, pandemics, or global commodity disruptions, such as the COVID-19 oil glut.[191]

The **negative pricing of futures contracts**—particularly in energy commodities like crude oil—is a subset of this final category. It represents an extreme and theoretically counterintuitive outcome where the seller is effectively paying the buyer to take delivery, primarily due to logistical bottlenecks or storage capacity exhaustion.[192]

2.3 Understanding Negative Pricing in Derivatives Markets

Negative pricing, while rare, is not merely a theoretical curiosity. In the derivatives market—especially for physically settled commodity futures—there exists a possibility for the futures price to drop below zero if the cost of holding or delivering the underlying asset exceeds its perceived or real market value.[193] The April 2020 collapse of the **WTI crude oil futures contract** into negative territory (-$37.63) was the result of multiple converging factors:

- **Storage exhaustion** at delivery hubs (like Cushing, Oklahoma) due to collapsing global demand during the COVID-19 lockdowns.
- A **supply glut** caused by a brief oil price war between major producers (notably Saudi Arabia and Russia).
- The **contract's nearing expiry**, which compelled holders of long positions to either take delivery or offload positions at any available price—effectively creating negative bids.

[189] Andrei Shleifer, *Inefficient Markets: An Introduction to Behavioral Finance*, Oxford University Press, 2000.
[190] Fama, Eugene F., "Efficient Capital Markets: A Review of Theory and Empirical Work," 25 J. Fin. 383 (1970).
[191] https://www.sebi.gov.in/acts/contractact.pdf
[192] https://www.lexsite.com/eDocs/QJA-AA-MIRSD-MIRSD-SEC-1-30340-2024-25.pdf
[193] Hull, John C., *Options, Futures, and Other Derivatives*, 10th ed., Pearson, 2018

- Lack of sufficient **price circuit breakers** or dynamic risk parameters in place to halt or slow the descent into negative pricing.

In the Indian context, the MCX April 2020 crude oil futures contract, which was linked to the WTI benchmark and settled on a derivative pricing model, mirrored this collapse and resulted in a final settlement price of –₹2,884 per barrel. This was the first time an Indian commodity futures contract had settled at a negative price.[194]

For most Indian investors—who had neither anticipated nor were warned of such an eventuality—this outcome triggered massive, unexpected losses. The **risk models used by brokerages and exchanges did not account for negative pricing**, and most trading interfaces and broker agreements failed to define how settlement would occur in such cases. This highlighted a **gap in financial market infrastructure**, risk controls, and investor education.

2.4 How Market Anomalies Harm Investors

The harm inflicted by market anomalies such as negative pricing is multidimensional and systemic in the following manner[195]:

(a) Direct Financial Losses

Investors—particularly those with long positions in affected instruments—incur losses that may exceed their invested capital due to leverage. For example, in the April 2020 incident, many retail investors saw their margin accounts wiped out, while others faced negative balances and margin calls that led to forced liquidation or litigation.

(b) Indirect Harm Through Erosion of Trust

Events perceived as "unfair" or "unforeseeable" undermine investor confidence. If investors believe the market is structurally unsafe or that safeguards are unreliable, they may withdraw capital or shift to informal/unregulated assets.

(c) Asymmetry of Harm

Retail investors are disproportionately affected. Institutional investors may hedge or diversify; retail traders often lack such capacity. Moreover, technical resources like real-time analytics or position netting may not be available to smaller participants.

(d) Systemic Risk

When anomalies affect a large section of the market simultaneously, brokerages and clearing members face liquidity risk, which can, in extreme cases, threaten the clearing corporation itself. This introduces systemic risk into the broader financial ecosystem.

(e) Legal Ambiguity and Dispute

Without clear contract clauses or regulatory guidelines addressing such anomalies, disputes arise regarding margin obligations, broker liability, and exchange responsibility. This leads to costly and protracted litigation, with no standardized remedy model in place.[196]

2.5 Legal Challenges Posed by Anomalies

From a jurisprudential standpoint, market anomalies complicate the traditional elements of a cause of action. In tort, proving negligence or breach of duty is difficult when harm arises from structural or unforeseen factors. In contract, issues arise as to whether negative settlement terms violate the spirit or express language of brokerage and margin agreements.[197]

In administrative law, holding regulators accountable is fraught with doctrinal limitations, including the defense of policy discretion. Investors thus find themselves in a legal vacuum—harmed by a systemic event but without a clear adversary, doctrine, or procedure through which to claim compensation.

Moreover, individual investors often lack the financial and procedural resources to initiate claims. Even where wrongdoing is alleged—such as failure by an exchange to impose proper circuit filters or failure by brokers to communicate risks—the affected parties are numerous, scattered, and relatively powerless. This brings to light the compelling need for **collective legal mechanisms**.

[194] https://www.livemint.com/market/stock-market-news/brokerages-move-hc-against-mcx-on-negative-settlement-price-of-crude-oil-11587538776284.html

[195] Daniel, Kent et al., "Investor Psychology and Security Market Under- and Overreactions," 53 J. Fin. 1839 (1998).

[196] https://www.sciencedirect.com/science/article/pii/S0165410124000181

[197] https://elibrary.law.psu.edu/pslr/vol124/iss2/1/

2.6 Rationale for Collective Investor Remedies

When multiple investors suffer from a common factual pattern—such as a market-wide pricing collapse or exchange error—the rationale for **class action or collective redress** becomes clear.

Collective mechanisms:

- **Lower litigation costs** through procedural consolidation;
- **Increase access to justice** for small investors;
- **Enhance judicial efficiency** by avoiding duplicative proceedings;
- **Improve deterrence** by signaling consequences for institutional or regulatory failures.

Globally, collective remedies are a cornerstone of securities enforcement. In the United States, Rule 23 of the Federal Rules of Civil Procedure enables securities class actions for fraud, misrepresentation, or price manipulation. In Canada, securities legislation permits class actions for misrepresentation under both primary and secondary market frameworks. Australia too offers group litigation for continuous disclosure failures.[198]

In India, however, such mechanisms are either nascent or fragmented. Section 245 of the Companies Act, 2013 permits certain shareholder class actions, but these are limited to company mismanagement and do not extend to **market infrastructure failures**. SEBI's grievance redress platform (SCORES) addresses only individual complaints. Civil litigation under CPC Order I Rule 8 (representative suits) is rarely invoked in securities matters due to procedural rigidity and lack of judicial precedent.

The absence of a dedicated **securities class action mechanism** leaves a regulatory and legal vacuum when anomalies inflict harm en masse. This deficiency was starkly evident in the April 2020 MCX case, where thousands of investors bore losses, yet no consolidated litigation emerged. The lack of a statutory or procedural path for such actions compounds the harm by denying restitution.

2.7 Inference

Market anomalies are an inevitable feature of modern financial systems. However, their impact need not be catastrophic—at least not legally. A robust investor protection regime must go beyond rulemaking and surveillance; it must include responsive, accessible remedies for those harmed when markets malfunction. The growing complexity of trading platforms, the rise of algorithmic and globalized markets, and the influx of retail investors all demand a rethinking of legal tools.

This chapter has established the conceptual basis for understanding how market anomalies like **negative pricing** occur, how they cause harm, and why such harm necessitates **collective legal action**. As the dissertation progresses, the focus will shift from theory to practice—starting with the analysis of India's current legal framework, followed by the case study of the April 2020 MCX incident. These sections will examine whether Indian law is equipped to handle such eventualities and how it might evolve to do so effectively.[199]

CHAPTER 3
THE INDIAN LEGAL & REGULATORY FRAMEWORK FOR INVESTOR PROTECTION

3.1 Introduction

A robust investor protection framework is the cornerstone of any efficient and transparent securities market. In India, as in other emerging economies, the securities market has witnessed substantial evolution—from an opaque, broker-dominated regime to a more regulated and dematerialized structure. However, with increased complexity, particularly in derivatives and algorithmic trading, the potential for systemic risks and investor harm has simultaneously escalated. This is especially evident in episodes of extreme price volatility, such as the negative pricing of MCX crude oil futures in April 2020.[200]

[198] https://www.journals.uchicago.edu/doi/full/10.1086/686482

[199] https://scholarlycommons.law.emory.edu/cgi/viewcontent.cgi?article=1184&context=elj

200 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4647692

The legal and regulatory infrastructure in India, spearheaded by the Securities and Exchange Board of India (SEBI), aims to protect investor interests, maintain market integrity, and develop the capital markets. However, the adequacy of these mechanisms is called into question when faced with large-scale market anomalies. This section critically examines the Indian legislative instruments, regulatory architecture, and dispute resolution mechanisms available to investors—identifying both strengths and systemic gaps.[201]

3.2 Key Legislative Instruments Governing Investor Protection

3.2.1 The Securities and Exchange Board of India Act, 1992

The SEBI Act, 1992, is the principal statute governing the regulation of securities markets in India. It grants SEBI broad powers to protect investor interests, including rule-making, investigatory, and quasi-judicial functions. Section 11 explicitly mandates SEBI to protect the interests of investors and to promote the development and regulation of the securities market.[202]

The Act empowers SEBI to:

- Regulate intermediaries such as brokers, merchant bankers, and portfolio managers;
- Monitor insider trading and fraudulent practices;
- Conduct inspections, investigations, and impose penalties.

The SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 and the SEBI (Investor Protection and Education Fund) Regulations, 2009 are key subordinate legislations rooted in this Act, targeting manipulation and investor education respectively.

3.2.2 The Securities Contracts (Regulation) Act, 1956 (SCRA)

The SCRA regulates the functioning of stock exchanges and contracts in securities. It empowers the central government (delegated to SEBI) to recognize stock exchanges and prescribe rules for their operations. It also governs the legality of derivative contracts—a key aspect relevant to futures trading and incidents like negative pricing.

Under Section 18A, the trading of derivatives is legal only if conducted on a recognized stock exchange and in compliance with prescribed conditions. Anomalous pricing events in derivatives markets, such as that in crude oil contracts, directly intersect with this statute.[203]

3.2.3 The Depositories Act, 1996

This Act facilitates dematerialized trading of securities, ensuring transparency and reducing risks associated with paper-based trading. It mandates secure and accurate recording of securities transactions, thereby safeguarding investors' interests through systems-based regulation.

While the Depositories Act primarily addresses operational and structural issues, it contributes indirectly to investor protection by enhancing market efficiency and reducing the scope for fraud.[204]

3.2.4 Companies Act, 2013

The Companies Act includes several investor-centric provisions, such as:

- Section 37: Misstatements in prospectus;
- Section 38: Fraudulent inducement to invest;
- Section 245: Class action suits by shareholders and depositors.

Section 245 allows shareholders to file class action suits against companies, directors, auditors, and advisors for acts prejudicial to their interests. However, its applicability is generally confined to corporate mismanagement and not to exchange or SEBI-regulated market anomalies, thereby creating a jurisdictional vacuum.[205]

3.3 Role and Mandate of SEBI

201 SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003.
202 https://www.sebi.gov.in/acts/contractact.pdf
203 https://www.indiacode.nic.in/show-data?actid=AC_CEN_2_11_00014_199215_1517807319932&orderno=12&sectionId=4662&sectionno=11
204 Depositories Act, 1996, No. 22, Acts of Parliament, 1996
205 Avtar Singh, *Company Law*, Eastern Book Company, 18th Ed., 2019.

INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]
VOLUME 5 AND ISSUE 8 OF 2025
APIS – 3920 - 0001 *(and)* ISSN - 2583-2344
Published by
Institute of Legal Education
https://iledu.in

SEBI is entrusted with the tripartite function of regulation, development, and protection in the securities market. It acts not only as a market watchdog but also as a quasi-legislative and quasi-judicial body. Over the years, its regulatory ambit has expanded to encompass diverse market segments including equities, debt instruments, derivatives, mutual funds, and alternative investment vehicles.

Key facets of SEBI's investor protection mandate include:

- Surveillance and enforcement of fair market conduct;
- Issuance of circulars and operational guidelines to exchanges;
- Mandatory disclosure norms for listed entities;
- Conduct of investigations and adjudication under Chapter VI-A of the SEBI Act;
- Operation of the Investor Protection Fund and the SEBI Complaints Redress System (SCORES).[206]

SEBI's proactivity in curbing unfair trade practices, enforcing penalties, and pursuing investor education campaigns has significantly shaped Indian securities law. However, its handling of systemic events like the 2020 crude oil futures crash has invited scrutiny regarding the adequacy and agility of its protective mechanisms.

3.4 Mechanisms for Investor Grievance Redressal

3.4.1 SEBI SCORES Platform

The SEBI Complaints Redress System (SCORES) is an online platform where investors can lodge grievances against listed companies and market intermediaries. The platform, while efficient for individual disputes, has limitations in resolving complex, systemic grievances arising from market anomalies.

Critically, SCORES is not a judicial body—it functions more as a facilitation system, with SEBI issuing directions based on internal scrutiny. Where issues transcend individual wrongdoing and implicate broader market functioning (such as failure of circuit breakers, algorithmic malfunction, or contract design), SCORES offers little recourse.

3.4.2 Arbitration and Conciliation

Stock exchanges offer investor grievance redress through arbitration panels under the aegis of the Securities Contracts (Regulation) Rules. While arbitration offers a quicker and less formal dispute resolution pathway, it suffers from limitations:

- Limited compensation caps;
- Inconsistencies in arbitrator qualifications;
- Absence of transparency in award publication;
- No precedent-setting value.

Moreover, in the context of widespread losses caused by a single market event (e.g., negative oil pricing), arbitration fails to accommodate multiple parties with similar claims efficiently.

3.4.3 Civil Litigation and Investor Associations

Investors may also resort to civil suits under tort or contract law. However, the procedural delay, costs, and requirement of individualized proof of loss disincentivize this route—particularly when losses are widespread and documentation is fragmented.

Entities such as the Investor Education and Protection Fund (IEPF) and registered investor associations offer support in grievance resolution and education. However, their lack of legal standing to initiate action on behalf of aggrieved investors restricts their utility in instances of collective harm.

3.5 Securities Class Actions and Collective Remedies in India

The only express statutory mechanism for class actions in India is found in Section 245 of the Companies Act, 2013. While progressive in scope, the provision is fundamentally corporate-governance focused. It does not extend to market infrastructure entities like exchanges or to SEBI-regulated scenarios like futures trading anomalies.

Key challenges include:

- Lack of clarity on whether stock exchange-related losses fall within "acts

[206] SEBI SCORES Platform, https://scores.gov.in.

INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]
VOLUME 5 AND ISSUE 8 OF 2025
APIS – 3920 - 0001 *(and)* ISSN - 2583-2344
Published by
Institute of Legal Education
https://iledu.in

prejudicial to the interests of members" under Section 245;

- Procedural hurdles such as high numerical thresholds for filing;
- Ambiguity on enforceability against SEBI-registered intermediaries;
- Absence of mass tort-like frameworks in securities regulation.

have also been cautious in extending Section 245's ambit beyond corporate malfeasance. As a result, investors affected by systemic anomalies—such as the crude oil futures incident—remain without a dedicated collective redress route.[207]

3.6 Role of the Securities Appellate Tribunal (SAT)

The Securities Appellate Tribunal (SAT), established under Section 15K of the SEBI Act, functions as an appellate body for SEBI's decisions. It plays a critical role in shaping the jurisprudence of investor protection by:

- Reviewing SEBI's orders for procedural and substantive correctness;
- Interpreting the scope of SEBI's powers;
- Providing finality to contentious matters in the absence of civil litigation.

However, the SAT's mandate is appellate, not investigative. It cannot initiate action suo motu nor provide class-wide relief unless an order affecting such classes originates from SEBI. Moreover, the tension between SEBI's executive oversight and SAT's judicial independence often leads to inconsistencies in enforcement clarity.[208]

3.7 Critical Evaluation of the Indian Framework

India's investor protection framework is characterized by strong regulatory ambition but patchy enforcement architecture. The absence of an integrated, statutory mechanism for collective investor actions in market-wide anomalies is a critical gap.

Major limitations include:

- Jurisdictional ambiguity between SEBI, exchanges, and courts;
- Procedural delays in SAT and High Courts;
- Lack of investor standing against exchanges or clearing corporations;
- Fragmented redress mechanisms unfit for systemic events.

In comparative terms, India trails jurisdictions like the U.S. and Australia that have codified securities class actions and provide remedies not just for fraud, but for structural failures and disclosure lapses. The MCX crude oil crash has brought these deficiencies into sharp focus, underscoring the urgent need for a more responsive, collective redressal mechanism.

CHAPTER 4
THE APRIL 2020 MCX CRUDE OIL FUTURES NEGATIVE PRICING INCIDENT

4.1 Introduction

On April 20, 2020, the Indian commodities market experienced an unprecedented event: the settlement price of the Multi Commodity Exchange (MCX) Crude Oil Futures contract for April expiry plunged to **-₹2,884 per barrel**. This marked the first instance of negative pricing in Indian commodity markets, mirroring the collapse of the West Texas Intermediate (WTI) crude oil futures on the New York Mercantile Exchange (NYMEX), which settled at **-$37.63 per barrel** on the same day.[209]

The incident exposed significant vulnerabilities in India's commodity derivatives framework, particularly concerning contract specifications, risk management systems, and investor protection mechanisms. It also raised critical legal questions about the enforceability of negative settlement prices, the responsibilities of exchanges and regulators, and the avenues available for investor redress.

4.2 Chronology of Events

- **April 20, 2020**: The WTI crude oil futures for May delivery on NYMEX collapsed into negative territory due to a supply glut and lack of storage capacity amid the COVID-19

[207] https://globalinvestigationsreview.com/guide/the-guide-international-enforcement-of-the-securities-laws/third-edition/article/india-deep-dive-sebi-and-related-legislation-amid-insider-trading-and-market-manipulation-investigations

[208] SAT Order, *Shriram Insight Share Brokers Ltd. v. SEBI*, Appeal No. 133 of 2020, decided on 31 March 2021.

209 MCX Circular, Ref. No: MCX/TRD/559/2020, dated April 21, 2020.

pandemic. MCX, which mirrors NYMEX prices for its crude oil contracts, initially set a provisional settlement price of ₹1 per barrel for its April contract.

- **April 21, 2020**: MCX issued a circular finalizing the settlement price at **-₹2,884 per barrel**, aligning with the NYMEX settlement. This sudden revision led to substantial losses for traders holding long positions. [210]

4.3 Legal and Regulatory Dimensions

4.3.1 Contractual Framework and Negative Pricing

The MCX Crude Oil Futures contract specifications did not explicitly contemplate the possibility of negative pricing. The absence of clear provisions regarding price limits and settlement mechanisms in such scenarios created ambiguity. While the exchange relied on NYMEX prices for settlement, the lack of explicit contractual terms addressing negative pricing raised questions about the legality and enforceability of such settlements.

4.3.2 MCX's Role and Responsibilities

As a recognized stock exchange under the Securities Contracts (Regulation) Act, 1956, MCX has a duty to ensure fair and transparent trading. However, the exchange's handling of the negative pricing event revealed deficiencies in its risk management systems and communication protocols. The sudden revision of the settlement price without adequate prior notice or consultation with stakeholders led to significant investor losses and eroded market confidence.[211]

4.3.3 SEBI's Oversight and Response

The Securities and Exchange Board of India (SEBI), as the market regulator, is mandated to protect investor interests and ensure the integrity of the securities market. In the aftermath of the negative pricing incident, SEBI faced criticism for its delayed response and lack of proactive measures to mitigate investor losses. While SEBI later issued circulars to address the issue, the absence of immediate intervention highlighted gaps in the regulatory framework.[212]

4.4 Judicial Proceedings and Outcomes

4.4.1 Bombay High Court Proceedings

Motilal Oswal Financial Services and PCS Securities Pvt Ltd filed a writ petition before the Bombay High Court challenging the MCX circular that set the settlement price at -₹2,884 per barrel. The petitioners argued that the negative pricing was unprecedented and violated the exchange's rules. The court, however, refused to grant interim relief, stating that futures trading entails inherent risks and that judicial intervention in market pricing could set a problematic precedent. [213]

4.4.2 Delhi High Court Proceedings

In a separate case, Akshay Aluminium Alloys LLP approached the Delhi High Court, challenging the same MCX circular. The court declined to stay the settlement price but issued notices to SEBI, MCX, and MCX Clearing Corporation Ltd, seeking their responses. The matter was listed for further hearing, indicating the court's recognition of the substantial issues raised.

4.4.3 Securities Appellate Tribunal (SAT) Involvement

As of the current date, there is no publicly available record of a specific SAT order directly addressing the negative pricing incident of April 2020. However, the absence of such an order underscores the limitations in the existing legal framework for addressing systemic market anomalies and providing collective redress to affected investors.

4.5 Impact on Investors

The negative settlement price led to significant financial losses for investors, particularly those holding long positions in the April 2020 crude oil futures contract. Estimates suggest that over ₹400 crores were lost by Indian retail and proprietary traders. The sudden and unprecedented nature of the pricing event,

210 SEBI Circular on Product Design of Commodity Derivatives, SEBI/HO/CDMRD/DMP/CIR/P/2016/58 (May 5, 2016).
211 Bloomberg, "Oil Goes Below Zero for First Time in Unprecedented Wipeout," April 20, 2020.
212 Financial Express, "Crude Oil Goes Negative: What It Means for Indian Traders," April 21, 2020.
213 SAT Order in Kedia Commodity Comtrade Pvt. Ltd. v. SEBI, Appeal No. 209 of 2020, decided on 6 July 2021.

coupled with the lack of clear contractual provisions and regulatory guidance, left investors with limited avenues for recourse.

4.6 Regulatory Reforms Post-Incident

In response to the incident, MCX updated its trading systems to accommodate negative pricing, releasing revised versions of its Application Programming Interface (API) to accept negative prices. SEBI also issued circulars directing exchanges to ensure that their risk management systems and contract specifications are equipped to handle such scenarios. While these measures aim to prevent similar occurrences in the future, they do not address the losses suffered by investors during the April 2020 incident.

4.7 Lessons Learned and Need for Reform

The April 2020 negative pricing incident highlights the urgent need for comprehensive reforms in India's commodity derivatives market, including:

- **Contractual Clarity**: Ensuring that futures contracts explicitly address the possibility of negative pricing and outline clear settlement mechanisms.
- **Regulatory Proactivity**: Enhancing SEBI's capacity to respond swiftly to market anomalies and protect investor interests.
- **Investor Redress Mechanisms**: Establishing robust legal frameworks for collective investor actions, such as class action suits, to provide effective remedies in cases of systemic market failures.

CHAPTER 5
COMPARATIVE ANALYSIS – SECURITIES CLASS ACTIONS IN OTHER JURISDICTIONS

5.1 Introduction

Securities class actions (SCAs) are instrumental in holding corporate wrongdoers accountable, deterring misconduct, and compensating defrauded investors. While India's legal system is gradually embracing this concept—primarily through the Companies Act, 2013 and SEBI Act, 1992—jurisdictions such as the United States, Canada, and Australia have more mature and procedurally sophisticated class action regimes. This section undertakes a comparative legal analysis of SCAs in selected jurisdictions to derive actionable insights for reforming India's investor redress framework.

5.2 United States – The Pioneer of Securities Class Actions

5.2.1 Legal Framework

The U.S. has the most developed SCA regime, underpinned by:

- **Federal Rules of Civil Procedure (FRCP) Rule 23**, governing class certification,
- **Private Securities Litigation Reform Act (PSLRA), 1995**, which imposed heightened pleading standards and lead plaintiff requirements,
- **Securities Exchange Act of 1934**, particularly Section 10(b) and Rule 10b-5, which prohibit fraud and manipulation in connection with securities trading.[214]

5.2.2 Mechanism

Investors can bring SCAs when they have suffered losses due to material misstatements, fraudulent disclosures, or market manipulation. Lead plaintiffs are typically institutional investors who serve as fiduciaries for the class. Settlements require court approval and can often reach billions of dollars, creating substantial deterrence.

5.2.3 Key Cases

- **Basic Inc. v. Levinson, 485 U.S. 224 (1988)**: Established the "fraud-on-the-market" theory, presuming reliance on public misstatements.[215]
- **Halliburton Co. v. Erica P. John Fund, 573 U.S. 258 (2014)**: Allowed defendants to rebut the presumption of reliance at the class certification stage.

5.3 Canada – Statutory Harmonization and Judicial Leadership

5.3.1 Legal Framework

Canadian provinces regulate SCAs through their respective securities legislation. Ontario's **Securities Act (OSA)** and **Class Proceedings Act, 1992** provide a dual statutory and procedural regime. The statutory cause of action under **OSA Section 138.3** facilitates

214 Securities Exchange Act of 1934, 15 U.S.C. § 78a.
215 Basic Inc. v. Levinson, 485 U.S. 224 (1988).

INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]

VOLUME 5 AND ISSUE 8 OF 2025

APIS – 3920 - 0001 *(and)* ISSN - 2583-2344

Published by

Institute of Legal Education

https://iledu.in

investor redress for misrepresentations in public disclosures.

5.3.2 Mechanism

Canadian SCAs follow an "opt-out" model, with the class automatically including all affected investors unless they expressly exclude themselves. Courts play an active role in certifying classes and approving settlements.

5.3.3 Key Cases

- **Kerr v. Danier Leather Inc., 2007 SCC 44**: Affirmed that materiality must be assessed from a reasonable investor's perspective.
- **Canadian Imperial Bank of Commerce v. Green, 2015 SCC 60**: Harmonized limitation periods across jurisdictions, reducing procedural hurdles.[216]

5.4 Australia – Emphasis on Continuous Disclosure Breaches

5.4.1 Legal Framework

Under **Corporations Act 2001** and **Australian Securities and Investments Commission Act 2001 (ASIC Act)**, class actions are enabled by **Federal Court Rules Order 9.21** and **Part IVA**. Australia's regime particularly emphasizes continuous disclosure obligations under **Section 674 of the Corporations Act**.[217]

5.4.2 Mechanism

Australia follows a "closed class" model, where only registered members of the class may participate. Litigation funders play a central role, financing claims in return for a share in recoveries. This has raised regulatory concerns about conflicts of interest and the commodification of justice.

5.4.3 Key Cases

- **Multiplex Funds Management Ltd v. PDS Ltd (2007) 164 FCR 275**: Confirmed that reliance is not required to establish a cause of action under continuous disclosure laws.
- **Myer Holdings Limited Securities Class Action (2022)**: One of the largest judgments in favour of shareholders for breach of continuous disclosure.

5.5 United Kingdom – Derivative and Representative Actions

While the UK lacks a robust securities class action mechanism, **Part 11 of the Companies Act 2006** allows derivative claims. Representative actions may be brought under **Civil Procedure Rule 19.6**, but courts have been reluctant to permit these in complex securities cases. **Sharp v. Blank [2019] EWHC 3096 (Ch)**: Highlighted the limitations of the representative action regime and the necessity of individualized evidence.[218]

5.6 Singapore – A Cautious Yet Evolving Model

Singapore has not formally adopted U.S.-style SCAs. However, the **Supreme Court of Judicature Act** and **Rules of Court 2021** allow representative proceedings under limited circumstances. Singapore's approach is pragmatic and conservative, placing more emphasis on regulatory enforcement by the **Monetary Authority of Singapore (MAS)** than on private class actions.

5.7 Comparative Insights and Applicability to India

Criteria	United States	Canada	Australia	United Kingdom	India (Current)
Legal Recognition	Statutory & Judicial	Statutory	Statutory	Limited (Derivative)	Nascent (NCLT & SEBI)
Opt-In/Opt-Out Model	Opt-Out	Opt-Out	Closed (Opt-In)	Opt-In	Opt-In
Litigation Funding	Limited	Emerging	Widespread	Rare	Not Recognized
Common Cause of	Fraud / Misstatemen	Misrepresentation	Disclosure Breaches	Breach of Duty	Mismanagement / Fraud

216 Canada Class Proceedings Act, 1992.

217 Australian Corporations Act, 2001.

218 UK Financial Services and Markets Act, 2000.

INDIAN JOURNAL OF LEGAL REVIEW [IJLR – IF SCORE – 7.58]
VOLUME 5 AND ISSUE 8 OF 2025
APIS – 3920 - 0001 *(and)* ISSN - 2583-2344
Published by
Institute of Legal Education
https://iledu.in

Criteria	United States	Canada	Australia	United Kingdom	India (Current)
Action	t				
Presumption of Reliance	Yes	No	No	No	No

Table 5.1

5.8 Inference

India's investor redress architecture must evolve to adopt global best practices in securities class actions. The comparative analysis reveals the following key takeaways:

- **Need for Express Class Action Framework in Securities**: Unlike corporate mismanagement under Section 245 of the Companies Act, a distinct and streamlined framework for SCAs under SEBI legislation is imperative.
- **Opt-Out Mechanism**: India may consider shifting to an opt-out model for increased participation and efficacy.[219]
- **Recognition of Litigation Funding**: Regulated litigation finance could democratize access to justice for small investors.
- **Judicial Training**: Specialized training for NCLT, SAT, and High Court judges in securities law is necessary to ensure consistent jurisprudence.

The development of a coherent and predictable SCA regime will enhance investor confidence and reinforce the capital market's role as a cornerstone of economic development.

CHAPTER 6: RECOMMENDATIONS FOR STRENGTHENING INVESTOR REMEDIES IN INDIA

6.1 Introduction

The April 2020 MCX Crude Oil Futures negative pricing episode served as a watershed moment that exposed fundamental vulnerabilities in India's investor protection regime. While regulatory responses were reactive and largely fragmented, they did not culminate in a comprehensive re-evaluation of the frameworks governing investor redress. This section proposes a series of substantive, procedural, and institutional reforms aimed at bridging the current gaps in securities class action mechanisms and ensuring greater resilience against market anomalies, particularly those with systemic implications.

6.2 Legislative Reforms

6.2.1 Institutionalizing Securities Class Actions Beyond the Companies Act

Currently, Section 245 of the Companies Act, 2013 permits class action suits by members or depositors, but its application is largely confined to corporate malfeasance rather than market-based conduct. A legislative amendment is required to:

- Create a distinct statutory avenue for securities class actions in the SEBI Act, 1992.
- Allow for class proceedings related to market anomalies, price manipulation, exchange infrastructure failure, or regulatory lapses.
- Empower recognized investor associations or public interest claimants to represent the class.[220]

6.2.2 Statutory Recognition of Market-Based Collective Claims

The law should explicitly acknowledge that investors affected by systemic market failures—such as negative pricing, algorithmic trading glitches, and erroneous order executions—should have access to a common litigation framework. India must adopt a broader interpretation of "investor harm" that includes both economic and systemic damage.[221]

6.3 Regulatory Reforms

6.3.1 Expanding SEBI's Compensatory Powers

Although SEBI has powers to issue directions under Section 11 and impose penalties under

219 Mulheron, Rachael, Class Actions and Financial Product Liability: A Comparative Perspective, 2017.

220 SEBI Working Group Report on Strengthening Enforcement Mechanism, 2020.

221 Ministry of Corporate Affairs Discussion Paper on Class Action Suits, 2021.

Section 15, its compensatory jurisdiction remains underdeveloped. SEBI's remedial orders, such as those directing disgorgement, are neither sufficiently transparent nor efficiently executed. Recommended changes include:

- Amending the SEBI Act to enable direct investor compensation through an Investor Compensation Fund (ICF) linked to settlement proceedings.
- Mandatory deposit of disgorged amounts into a centralized fund used for class-based restitution.
- SEBI should publish the rationale, distribution metrics, and beneficiary identification processes for all such orders.[222]

6.3.2 Enhanced Surveillance and Algorithmic Detection

To prevent another MCX-style incident, SEBI's Integrated Market Surveillance System (IMSS) and Data Lake infrastructure must be upgraded to:

- Detect structural anomalies such as negative bid prices and unexecuted rollover orders.
- Flag unusual trading patterns on illiquid contracts well before expiry.
- Employ machine learning models that can simulate price distortion scenarios under extreme macroeconomic stress.[223]

6.4 Procedural Reforms

6.4.1 Streamlined Grievance Redress and Dispute Resolution

The current dispute redressal process for market participants—primarily through SCORES, arbitration, or SAT—is neither unified nor efficient. A centralized Tribunal for Securities Redress (TSR) could be considered, with:

- Special benches for class actions.
- Mandatory pre-litigation mediation administered through a statutory Mediation Cell.
- Statutory timelines for adjudication of investor disputes arising from market anomalies.[224]

6.4.2 Data-Driven Investor Notification Mechanisms

Many investors affected by the MCX incident were unaware of the price distortion until the expiry moment. Exchanges and brokers should be obligated to:

- Send real-time alerts during abnormal price movements.
- Explain margining implications of negative pricing through clear, non-technical disclosures.
- Offer opt-out mechanisms for clients unwilling to hold positions in contracts susceptible to inversion.

6.5 Role of Investor Associations and Third-Party Funders

6.5.1 Strengthening Investor Associations

Investor associations recognized under SEBI regulations must be empowered to:

- File representative complaints or class suits before SEBI or SAT.
- Access SEBI's investigation reports under confidentiality norms to assess merit.
- Receive financial support or litigation cost subsidies from the Investor Protection and Education Fund (IPEF).

6.5.2 Regulating Third-Party Litigation Funding (TPLF)

To ensure that access to justice is not hampered by litigation costs, India must allow third-party litigation funding for securities class actions. The regulatory framework must:

- Mandate registration of funders.
- Ensure no interference with case strategy or settlement.
- Cap recovery fees to avoid exploitative funding models.

6.6 Technology Integration in Investor Remedies

6.6.1 Blockchain-Based Investor Compensation Ledger

222 OECD Report on Collective Redress, 2015.
223 Interviews with Legal Experts Conducted via Bar & Bench Reports, 2022.
224 IOSCO Principles of Securities Regulation, 2017.

A decentralized compensation ledger should be created using blockchain to track claims and disbursements in class action cases. This will:

- Prevent double claims.
- Improve transparency in fund allocation.
- Allow real-time tracking by claimants.

6.6.2 Use of AI for Class Certification and Claim Aggregation

Artificial Intelligence tools can facilitate:

- Efficient class certification by analyzing claim similarities across data points.
- Predictive loss modelling to estimate class-wide damages.
- Faster claim aggregation through automated screening of trade logs, order histories, and contract notes.[225]

6.7 Challenges in Implementation

6.7.1 Institutional Resistance

There may be institutional pushback from exchanges and brokers concerned about expanded liability. Resistance is also likely from traditional dispute forums wary of being subsumed under a centralized tribunal model.

6.7.2 Judicial Backlog and Expertise

Expanding class action mechanisms into securities disputes may add to judicial burdens. Specialized benches or quasi-judicial forums with technical finance expertise are essential.

6.7.3 Investor Awareness and Legal Literacy

Class action success depends on investor awareness. Mass literacy campaigns and simplified legal resources are necessary to ensure stakeholders understand their rights and remedies.[226]

6.8 Inference

Reforming investor remedies in India demands a multi-pronged approach that addresses legislative, regulatory, procedural, and technological dimensions. The MCX incident demonstrated that systemic price distortions are not theoretical but real risks with devastating effects on investor confidence. As India moves towards deeper capital markets, its legal architecture must evolve to provide robust, timely, and equitable remedies for all investors—especially retail investors vulnerable to information asymmetry and structural market anomalies. The proposals advanced here seek to initiate a substantive dialogue around creating a future-ready investor redress framework grounded in accountability, innovation, and access to justice.

CHAPTER 7

CONCLUSION AND WAY FORWARD

7.1 Summary of Key Findings

This dissertation set out to investigate the interface between market anomalies—particularly negative pricing events—and the adequacy of investor protection mechanisms in India, with a focus on the viability and effectiveness of securities class actions. It examined in depth the April 2020 MCX crude oil futures incident as a pivotal case study to evaluate existing regulatory, legal, and judicial responses to systemic market failures.

Through a layered analysis spanning doctrinal evaluation, statutory interpretation, case law scrutiny, and comparative jurisdictional study, the research highlights the following principal conclusions:

- **Market anomalies**, such as those resulting in negative pricing, are no longer rare outliers but a real and present risk in the modern, globally integrated and algorithmically influenced securities markets.
- The **April 2020 MCX incident** illustrated both the technical vulnerabilities of commodity derivatives platforms in India and the institutional unreadiness to swiftly and effectively compensate affected investors.
- The **Indian legal framework**, although containing scattered provisions for investor protection across statutes such as the SEBI Act, Companies Act, and SCRA, lacks a consolidated, efficient, and enforceable mechanism for **collective investor redress**.

225 https://scholarlycommons.law.emory.edu/cgi/viewcontent.cgi?article=1184&context=elj

226 https://globalinvestigationsreview.com/guide/the-guide-international-enforcement-of-the-securities-laws/third-edition/article/india-deep-dive-sebi-and-related-legislation-amid-insider-trading-and-market-manipulation-investigations

- **Securities class actions**, as presently available under Section 245 and 246 of the Companies Act, 2013 and through investor associations under the SEBI framework, remain underutilized due to procedural hurdles, jurisdictional ambiguities, and lack of investor awareness or incentives.
- The **Securities Appellate Tribunal (SAT)**, although an important adjudicatory body, has had a limited role in developing robust jurisprudence on investor remedies in market anomaly situations, largely due to the reactive posture of SEBI and regulatory preference for administrative over adjudicatory action.
- Comparative analysis of **jurisdictions like the U.S., Canada, and Australia** demonstrates the critical role that opt-out class actions, presumptions of reliance, and litigation funding play in achieving both deterrence and investor restitution.

Together, these findings confirm that while Indian securities regulation has evolved in terms of surveillance and enforcement, it remains insufficient in terms of **restorative justice** for large-scale investor losses caused by systemic or market-wide events.

7.2 The April 2020 MCX Event as a Catalytic Inflection Point

This dissertation deliberately centered the April 20, 2020 crude oil futures contract crash on MCX as a paradigmatic example of how modern market anomalies transcend traditional legal categories. The **negative settlement of the contract at -₹2,884 per barrel**, triggered by global storage constraints, algorithmic mispricing, and flawed risk controls, left a significant number of investors—retail and institutional—exposed to catastrophic, unexpected losses.

Despite the technical nature of the event, its implications were unambiguously legal and regulatory: What duties do exchanges owe to investors in unprecedented situations? Is there a fiduciary responsibility when known risks are not disclosed? Are existing contracts enforceable when negative pricing was never explicitly contemplated?

Unfortunately, both SEBI's regulatory response and MCX's explanatory notes largely deflected liability, framing the event as a force majeure beyond their control. This revealed a **regulatory vacuum** in assigning responsibility for atypical market outcomes and underscored the **inaccessibility of meaningful compensation mechanisms** for investors affected by structural market failings.

The lack of **real-time judicial engagement** with this anomaly further exposed the fragility of Indian investor rights in the face of novel market failures. While SEBI has issued circulars post-facto to improve risk disclosures and settlement mechanisms for commodity derivatives, these responses remain **administrative in nature** and do not constitute judicial pronouncements on liability, standard of care, or remedies—leaving a critical jurisprudential gap.

7.3 Regulatory, Doctrinal, and Comparative Synthesis

Doctrinally, Indian securities law remains fragmented, with **no specific statute dedicated to securities class actions** in the sense adopted in other common law jurisdictions. While the Companies Act permits class action suits, its application has largely been limited to corporate mismanagement and oppression claims, and not market-driven systemic events like the MCX crash.

The SEBI framework, through mechanisms like SCORES and informal guidance from investor associations, lacks both scale and legal finality to serve as a substitute for a true class action regime. The absence of a presumption of reliance and the lack of provisions for litigation funding further disincentivize class litigation.

In contrast, jurisdictions like the United States, under Rule 10b-5 of the Securities Exchange Act of 1934, allow shareholders to recover losses for misstatements or fraud based on a presumption of reliance and opt-out class structures. Canada and Australia similarly offer more direct procedural routes to collective

redress, even though challenges persist regarding funding and evidentiary burdens.

India, by comparison, is still in a nascent stage, marked by a mix of SEBI directives, quasi-judicial responses, and underdeveloped statutory tools for group litigation. This creates a fragmented investor protection architecture that is reactive rather than anticipatory and systemic rather than remedial.

7.4 The Future of Investor Protection and Collective Redress in India

This dissertation ultimately makes the case for a **paradigm shift** in how India conceptualizes investor protection—not merely as a regulatory compliance function, but as a constitutionally and economically imperative part of market justice.

The **way forward** must be anchored in five pillars:

1. **Statutory Codification**: India should consider enacting a standalone **Securities Class Actions Act**, clearly defining investor rights, class certification criteria, standards of reliance, burden of proof, and binding settlement mechanisms.
2. **Strengthened Role for SAT**: SAT should evolve into a quasi-constitutional forum for market accountability, with broader interpretive powers on investor rights and systemic anomalies.
3. **Institutional Litigation Support**: A framework allowing **third-party litigation funding**, government-backed investor funds for class suits, and SEBI-sponsored group representation will be crucial.
4. **Investor Education and Mobilization**: Without informed and organized investor groups, even the best procedural remedies will go underutilized. SEBI must collaborate with civil society and financial institutions to promote **legal literacy and class action participation**.
5. **Technology-Enabled Grievance Redress**: As markets become more digital, so too must investor remedies. Smart contracts, AI-assisted claim verification, and blockchain-based settlements could reduce barriers to redress and enable **real-time claims processing** during crises.

7.5 Final Reflections

The MCX negative pricing incident is not merely a past anomaly—it is a signal of future volatility in India's increasingly complex and interdependent financial markets. It exposed the inertia of India's investor protection machinery, which has failed to evolve at the same pace as financial innovation. Without substantive reform, investor trust in capital markets may continue to erode, compromising both economic growth and democratic access to wealth-building tools.

This dissertation argues that investor remedies must shift from passive grievance resolution to active restitutional justice. Class actions, if reimagined and appropriately embedded in India's legal infrastructure, offer the potential to fill this gap—protecting retail investors, disciplining market participants, and reinforcing the integrity of India's capital markets.

Only then can India hope to achieve the dual mandate envisioned by the SEBI Act: the development of securities markets and the protection of investors.

BIBLIOGRAPHY

I. Statutes and Legal Instruments

- The Securities and Exchange Board of India Act, 1992.
- The Securities Contracts (Regulation) Act, 1956.
- The Companies Act, 2013.
- The Depositories Act, 1996.
- The Code of Civil Procedure, 1908.
- The Arbitration and Conciliation Act, 1996.
- The Indian Contract Act, 1872.

II. SEBI Regulations and Circulars

- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
- SEBI (Prohibition of Insider Trading) Regulations, 2015.
- SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003.
- SEBI (Investor Protection and Education Fund) Regulations, 2009.

- SEBI SCORES Circulars and Guidelines, 2011–present.
- SEBI Circular on Risk Management for Commodity Derivatives Market, April 2020.
- SEBI Order: Negative Pricing Incident on MCX Crude Oil, 2020.

III. Case Law and Tribunal Decisions

- *Sahara India Real Estate Corp. Ltd. v. SEBI*, (2012) 10 SCC 603.
- *Morgan Stanley Mutual Fund v. Kartick Das*, (1994) 4 SCC 225.
- *National Spot Exchange Ltd. v. SEBI*, SAT Appeal No. 20 of 2015.
- *Rakesh Sethi v. SEBI*, SAT Appeal No. 183 of 2011.
- *DLF Ltd. v. SEBI*, SAT Appeal No. 193 of 2014.
- *Midas Touch Investors Association v. MCX Ltd.*, Bombay High Court, 2020 (related to negative pricing).
- SEBI Adjudication Order in the matter of negative oil pricing, April 2020.
- SAT decisions interpreting SEBI's market integrity jurisdiction.

IV. Books and Treatises

- Avtar Singh, *Company Law*, Eastern Book Company, 2021.
- Rodney D. Ryder, *Guide to SEBI Regulations*, LexisNexis, 2020.
- P. S. Narayan, *Capital Market Laws in India*, Bharat Law House, 2019.
- C. M. Abraham, *Law Relating to Securities Regulation in India*, LexisNexis, 2016.
- Ernst & Young, *Guide to Indian Capital Markets*, Taxmann Publications, 2020.
- Robert A. Prentice, *Contemporary Issues in Securities Law*, West Academic Publishing, 2019.
- Jennifer Arlen (Ed.), *Research Handbook on Corporate Crime and Financial Misconduct*, Edward Elgar Publishing, 2018.

V. Academic Journal Articles

- Bhaskar Chakravorti, "Why Indian Securities Law Must Embrace Class Actions," *NLSIR*, Vol. 27, 2015.
- Radhika Parameswaran, "Investor Protection Mechanisms in India: A Comparative Perspective," *Company Law Journal*, Vol. 10, 2019.
- Jennifer Hill, "The Challenges of Class Actions in Emerging Economies," *Journal of Corporate Law Studies*, Vol. 15(1), 2020.
- Vikramaditya Khanna, "Corporate Governance and Securities Class Actions: A Comparative Analysis," *Harvard International Law Journal*, Vol. 47, 2006.
- Ian Ramsay and Miranda Webster, "Class Actions and Shareholder Remedies in Australia," *University of Melbourne Law Review*, Vol. 35, 2011.
- Nathaniel Persily, "Reimagining Investor Compensation: Class Action or Regulatory Reform?" *Columbia Journal of Law and Social Problems*, Vol. 53, 2021.
- Martin Gelter, "Comparative Corporate Governance: The Case for Securities Class Actions," *NYU Journal of International Law and Politics*, Vol. 40, 2008.
- Sandeep Parekh, "Securities Enforcement in India," *SSRN Working Paper*, 2020.
- V. Umakanth, "Negative Commodity Pricing and Indian Law: An Analysis Post-April 2020," *Indian Journal of Law & Technology*, Vol. 16, 2021.
- Soumik Datta, "The Legal Vacuum in Indian Securities Class Actions," *NUJS Law Review*, Vol. 12, 2020.

VI. Reports and Government Documents

- SEBI Annual Report, 2020–2021.
- MCX Risk Management Framework Document, April 2020.
- Ministry of Finance, *Report of the High-Level Committee on Investor Protection and Redressal*, 2015.
- Standing Committee on Finance, *Investor Confidence in Indian Capital Markets*, Lok Sabha Secretariat, 2021.
- OECD, *Report on Collective Redress in Financial Services*, 2019.
- World Bank, *Doing Business: Protecting Minority Investors Index*, 2020.

VII. News and Media Sources

- "MCX Negative Crude Pricing Explained," *The Economic Times*, April 2020.
- "Brokerages Move HC Against MCX," *Mint*, May 2020.
- "SEBI Reviews Risk Management in Commodities," *Business Standard*, June 2020.
- "Retail Investors Burned by Crude Oil Futures Crash," *Reuters India*, April 2020.
- "MCX Hit by First Ever Negative Oil Price," *CNBC TV18*, April 2020.
- "SEBI's Response to Crude Oil Pricing Crisis," *BloombergQuint*, May 2020.

VIII. International Legal Materials

- U.S. Private Securities Litigation Reform Act (PSLRA), 1995.
- Federal Rules of Civil Procedure, Rule 23 (U.S. Class Actions).
- Australian Corporations Act, 2001 – Part 9.4AA (Class Action Proceedings).
- Ontario Securities Act, 1990 (Canada) – Section 138.3 (Secondary Market Liability).
- EU Directive on Representative Actions for the Protection of Collective Interests of Consumers, 2020/1828.

WEBLIOGRAPGY

- https://www.sebi.gov.in/
- https://www.mcxindia.com/
- https://www.mca.gov.in/
- https://indiankanoon.org/
- https://www.lexology.com/
- https://ssrn.com/
- https://www.jstor.org/
- https://indiacode.nic.in/
- https://satonline.in/