



INDIAN JOURNAL OF
LEGAL REVIEW

VOLUME 5 AND ISSUE 14 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 14 of 2025 (Access Full Issue on – <https://ijlr.iledu.in/volume-5-and-issue-14-of-2025/>)

Publisher

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INSIDER TRADING IN THE INDIAN BANKING SECTOR: AN ANALYSIS IN SEBI'S RECENT ORDER AND SETTLEMENT

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BEST CITATION – SOWBAAKHYA Y & SWETHA S, INSIDER TRADING IN THE INDIAN BANKING SECTOR: AN ANALYSIS IN SEBI'S RECENT ORDER AND SETTLEMENT, *INDIAN JOURNAL OF LEGAL REVIEW (IJLR)*, 5 (14) OF 2025, PG. 475-479, APIS – 3920 – 0001 & ISSN – 2583-2344.

Abstract:

Insider trading remains a major problem in the Indian financial system and, given the high availability of access to inside information in the banking sector and the high potential for abuse, insider dealing is a particularly serious problem in the Indian banking sector. It discusses the legal and regulatory regime for the regulation of insider dealing in India and the role of the 1992 Law on the Securities and Exchange Board of India and the 2015 Law on the Securities and Exchange Board of India (on the prohibition of insider dealing) which together aim at ensuring fairness, transparency and investor protection. In this context, the article reviews two recent important SEBI measures which reflect evolving enforcement practices. In the first case, the 2025 interim order against senior officials of IndusInd Bank Ltd., found prima facie evidence of long-term possession and misuse of unpublished price-sensitive information regarding material mismatch in the derivative portfolio of the bank, imposed trading restrictions, clawback of illegal profits, and extensive disclosure requirements. In the second case, the settlement of insider-trading allegations in the context of the merger of HDFC and HDFC Bank, the derivative trade of a related party based on UPSI leaked by a member of the Deloitte valuation team was settled via monetary payments under the SEBI settlement framework. By exploring these contrasting regulatory actions, the article underscores the persistent challenges in curbing insider trading and emphasises the need for stronger internal controls, ethical governance, and real-time surveillance to reinforce market integrity.

Keywords:

Insider Trading, Securities and Exchange Board of India (SEBI), Indian Bank, Finance, Unpublished Price Sensitive Information (UPSI)

Introduction:

The Indian financial sector, including the banking industry, is a key driver of economic growth, stability, and investment climate, and it is undergoing rapid digital transformation, strengthening corporate governance, and increasing regulatory oversight, including from the Securities and Exchange Board of India (SEBI), while facing major compliance challenges, including insider trading violations

that have damaged investor confidence, fairness, and integrity of the market, especially with regard to banking companies that process large amounts of sensitive financial information related to loan write-offs, merger plans, stress asset disclosures, and quarterly financial results.

Regulatory attention has also focused on insider trading cases related to large banks and financial institutions, where

SEBI's recent orders and settlements have revealed how individuals with access to unpublished price-sensitive information (UPSI), including bank executives, employees, auditors, and even relatives, traded in securities to their advantage, violating the fundamental principles of transparency, fairness, and equal access to information in the securities market, and undermining trust in the financial system.

With an emphasis on SEBI's regulatory framework and recent enforcement actions, this paper examines the idea of insider trading, particularly as it relates to the Indian banking industry.

Definition:

The term insider trading has been defined in the New Oxford Companion to Law as "Insider dealing occurs when a person with access to information that is precise and not generally available improperly discloses that information or uses it to deal to his advantage in financial securities in public market"⁷⁶⁰. In simple words we can define insider trading as an act of direct or indirect trading of the securities of any publicly listed company on the basis of any information which is not available to the public at large. The person may or may not be managing the affairs of the said company.

The SEBI Act, 1992 hasn't provided any definition to the act of insider trading rather it has defined the term 'insider', 'connected person' and 'price sensitive information'.

The term 'insider' has been defined as any person who is a connected person or having the possession of or the access to the unpublished and undisclosed price sensitive information.⁷⁶¹

The term 'connected person' means any person who is or has during the six months prior to the concerned act been associated with a company, directly or indirectly, in any capacity including by reason of frequent communication

with its officers or by being in nay contractual, fiduciary or employment relationship or by being a director, officer or an employee of the company or holds any position including a professional or business relationship between himself and the company whether temporary or permanent, that allows such person, directly or indirectly, access to unpublished price sensitive information or is reasonably expected to allow such access. The person falling in this category shall be deemed as the connected person unless the contrary has been established.⁷⁶²

Legislation Related to Insider Trading in India

The regulation of insider trading in India has been a long and evolving journey, moving toward a greater degree of fairness, transparency, and investor protection.

1. Companies Act, 1956 & Early Recommendations

The Companies Act, 1956, the first attempt to regulate insider behaviour, indirectly controlled it through the disclosure of shareholding by directors and managers under Sections 307 and 308, but it did not prohibit insider trading directly, and committees such as the Sachar Committee (1978), Patel Committee (1986), and Abid Hussain Committee (1989) made recommendations for stronger regulations and direct intervention.

2. SEBI Act, 1992

The enactment of SEBI as the market regulator under the SEBI Act, 1992 under Section 11 & Section 11B was a landmark change as it provided for investigation, prevention, and punishment of insider trading for the first time.

3. SEBI (Insider Trading) Regulations, 1992.

The first comprehensive insider trading regulations were introduced in India and defined insiders in terms of their position or relationship with the company, which was broad and unenforceable; it was

⁷⁶⁰ Peter Cane (ed.), The New Oxford Companion to Law 591 (Oxford University Press, Oxford, 2008).

⁷⁶¹ Abhirami B & Arya Kuttan, Insider trading laws in india - Pertinence And Problems, INTERNATIONAL JOURNAL OF LEGAL DEVELOPMENTS AND ALLIED ISSUES 443, 445 (2018).

⁷⁶² Ibid

difficult to prove intent and information access, resulting in low conviction rates.

4. SEBI (Prohibition of Insider Trading) Regulations, 2015

Enacted in 2015 after the recommendations of the Justice N.K. Sodhi Committee, the regulations have seen a marked improvement in regulation, prevention, and enforcement (broadened definition of insider: includes anyone reasonably expected to have access to UPSI [auditors, professionals, even friends, as seen in SEBI v. Deep Industries case], prohibition of trading while in possession of UPSI, structured digital database for tracking UPSI sharing, mandated codes of conduct for listed companies and intermediaries, restriction on communication of UPSI except to certain specified persons).

5. SEBI (Settlement Proceedings) Regulations, 2018

Here, parties involved in the insider trading could settle cases by paying monetary penalties without admitting guilt, which increased the efficiency of enforcement, and several banking-related cases have been resolved through settlement orders. 6. Section 15G of the SEBI Act – Penalty Provision Section 15G provides that whoever communicates UPSI, trades while in possession of UPSI, or counsels another person to trade using UPSI, will face penalties ranging from ₹10 lakh to ₹25 crore or three times the amount of profit earned—whichever is higher.

Analysis on the Ex parte Order on the Indus Ind Bank Ltd.:

Facts of the Case:

On 10 March 2025, SEBI began a suo motu investigation after Indus Ind Bank Limited (IBL) announced after market hours on 6 March 2025 that an internal review, conducted as part of the 2023 Master Direction on accounting for derivatives issued by the RBI, had identified certain mismatches in the Other

Assets and Other Liabilities accounts of its derivative portfolio, which could have a negative impact of 2.35% on its net worth (approximately ₹1,529.88 crore), leading the bank's share price to drop 27.165% on the next trading day. SEBI determined that senior management, including the five noticees—Arun Khurana (Deputy CEO), Sumant Kathpalia (MD & CEO), Sushant Sourav (Head Treasury Operations), Rohan Jathanna (Head GMG Operations), and Anil Marco Rao (CAO Consumer Banking)—were aware of the discrepancies as early as November–December 2023, and internal emails indicated that by November 20–30, 2023, the CFO and different department heads were calculating the impact and creating figures to present to the board.

On December 4, 2023, the MD & CEO had acknowledged the seriousness of the matter, noting that the impact was "huge" and reportable, but KPMG was appointed on January 29, 2024 to confirm the same and arrived at a figure of ₹2,093 crore for the December 2023 quarter, which were regularly submitted or proposed to be submitted to RBI, but not publicly disclosed until March 10, 2025. SEBI determined that the UPSI originated on or before December 4, 2023 and was not disclosed for 15 months, while the noticees—designated persons and insiders—sold 3,48,500 shares (Khurana), 1,25,000 (Kathpalia), 2,065 (Sourav), 2,000 (Jathanna) and 1,000 (Rao). SEBI concluded that the sales prima facie violated Sections 12A(d) and (e) of the SEBI Act and Regulation 4(1) of the PIT Regulations.

Order:

The interim ex-parte order by SEBI confiscated the amount of loss avoided at ₹19.78 crore, and directed each of the noticees to make fixed deposits of the amount with lien in favour of SEBI, barred all five from acquiring, disposing, or dealing in any securities, froze debits in their bank and demit accounts, prohibited transfer or redemption of their securities, including mutual funds, and prohibited disposal of assets until the impounded amount is deposited, and required

them to furnish a complete inventory of assets within 15 days. These directions are valid until further orders and SEBI is conducting a detailed investigation.

Analysis on the SEBI Settlement on the HDFC bank – HDFC Bank merger:

Between 1 November 2021 and 30 April 2022, SEBI investigated the trading activities of HDFC Ltd and HDFC Bank Ltd in relation to the high-profile merger of HDFC and HDFC Bank announced before market hours on 4 April 2022. The valuer of the merger, Deloitte, was appointed on 29 March 2022 and applicant No 1, Nimai Parekh, was a member of the Deloitte valuation team and thus possessed unpublished information about the merger sensitive to price, which SEBI considered would be valid from 13 December 2021 to 4 April 2022.

They found that Applicant 1, who was in constant communication with his close friend, Applicant 2 (Rahil Dalal), had reasonable access to UPSI and was thus treated as an insider. SEBI also found that Applicant 2 disclosed the UPSI to his father, who purchased call option contracts of HDFC Ltd. and HDFC Bank through a Hindu Undivided Family (HUF) account prior to the merger announcement and sold them post-merger, earning a profit of ₹5.67 lakh in HDFC Ltd. and ₹2.52 lakh in HDFC Bank. It alleged that Applicant 1 disclosed UPSI in violation of Regulation 3(1) of the PIT Regulations and Section 12A(d) of the SEBI Act, and Applicant 2 obtained and further disclosed UPSI in violation of Regulations 3(1) and 3(2) of the PIT Regulations and Sections 12A(d) and (e) of the SEBI Act.

Both applicants filed suo motu settlement applications, i.e., they did not wish to dispute the allegations and instead sought resolution without admitting or denying guilt under the SEBI (Settlement Proceedings) Regulations, 2018. The applicants were called before SEBI's Internal Committee, and revised terms were proposed, which were accepted by the Whole-Time Members on 6 November 2024, after which the applicants paid the settlement amounts of ₹39,00,000 by Applicant 1 and ₹35,00,000 by

Applicant 2 in December 2024, and SEBI confirmed receipt.

The settlement ends all enforcement proceedings for the alleged violations but contains the usual reservations: the regulator may reopen proceedings if any representations made during settlement are later found to be false, if settlement conditions are breached, or if inconsistencies are found in the settlement calculation. In general, the settlement shows SEBI to have applied the settlement mechanism in a practical manner to address insider-trading allegations in an efficient way and to levy significant monetary penalties while reserving the right to act if misconduct recurred.

Conclusion:

The insider trading in the above banking sectors show that there is need for corporate governance as they could make investors question the integrity of the bank and they could lose confidence in the sector. In addition, SEBI can think about incorporating some of the best practices from around the world to strengthen its regulatory structure. In order to defend against accusations of insider trading, the U.S. Securities and Exchange Commission (SEC) uses Rule 10b5-1 plans, which permit insiders to create pre-established trading strategies. But these strategies can be deployed wrongly to set off severe fines, and consequently there has to be careful monitoring. Including such techniques in SEBI will assist in inhibiting insider trading even more and protect market integrity.

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