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REGULATORY GAPS IN THE TRADING OF UNLISTED SHARES IN INDIA: A LEGAL ANALYSIS OF INVESTOR PROTECTION

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Abstract

The trading of unlisted shares in India has expanded significantly over the past decade, propelled by the rapid growth of start-ups, venture capital-backed enterprises, and companies preparing for Initial Public Offerings (IPOs). Investors increasingly seek pre-IPO equity exposure to capture listing gains, resulting in the emergence of a parallel grey market in unlisted securities. However, while India maintains a comprehensive regulatory framework for listed securities under the Securities and Exchange Board of India Act, 1992 (SEBI Act), the Securities Contracts (Regulation) Act, 1956 (SCRA), and the Companies Act, 2013, the secondary trading of unlisted shares operates within a fragmented and largely unregulated environment.

This regulatory lacuna generates significant investor protection concerns, including information asymmetry, valuation opacity, fraudulent intermediation, illiquidity risks, and absence of structured grievance redressal mechanisms. The lack of standardized disclosure norms and price discovery systems undermines transparency and market integrity. This paper critically examines the existing statutory framework governing unlisted securities in India, identifies structural regulatory gaps, and evaluates judicial and administrative responses. A comparative analysis of regulatory models in the United States, the United Kingdom, and Singapore is undertaken to identify best practices.

The paper argues that India's current approach characterized by regulatory silence rather than active oversight exposes retail investors to disproportionate risk and weakens public trust in capital markets. It concludes by proposing comprehensive reforms including mandatory registration of intermediaries, calibrated disclosure obligations for frequently traded unlisted companies, standardized valuation norms, investor eligibility restrictions, and establishment of a specialized grievance redressal framework. The study contends that regulatory intervention is necessary not to stifle capital formation, but to ensure balanced investor protection and sustainable market development.

Keywords: Unlisted shares, grey market, SEBI, private placement, investor protection, securities regulation, secondary trading.

I. Introduction

India's capital markets have undergone significant transformation since economic liberalization in 1991. The establishment and empowerment of the Securities and Exchange Board of India (SEBI) through the Securities and Exchange Board of India Act, 1992 marked a

pivotal shift toward structured securities regulation²⁹⁶. The regulatory ecosystem was further consolidated through the Securities Contracts (Regulation) Act, 1956 and the Companies Act, 2013, together forming the backbone of India's listed securities regime.

²⁹⁶ Securities and Exchange Board of India Act, 1992.

While the listed securities market has matured into a transparent and relatively well-regulated environment, a parallel ecosystem for trading unlisted shares has developed outside the traditional exchange framework. Unlisted shares refer to equity securities of companies not admitted to trading on recognized stock exchanges under the SCRA²⁹⁷. Historically, such shares were transferred among promoters, venture capital funds, and private equity investors in negotiated transactions. However, over the last decade, retail investors have increasingly participated in this segment, attracted by the prospect of pre-IPO gains.

The growth of India's start-up ecosystem has accelerated this trend. Venture-backed companies often postpone public listings to maximize valuation, creating demand for secondary liquidity among early-stage investors and employees holding stock options. In response, informal broker networks and digital platforms have emerged to facilitate off-market transfers of unlisted shares. These transactions occur outside recognized stock exchanges and beyond the continuous disclosure obligations applicable to listed entities.

Although transferability of shares is legally recognized under company law²⁹⁸, the absence of a coherent regulatory structure governing secondary trading in unlisted securities creates significant risks. Unlike listed securities, unlisted shares are not subject to continuous disclosure norms under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015²⁹⁹; they are not traded on regulated exchanges; and they lack standardized price discovery mechanisms. Moreover, intermediaries facilitating such trades frequently operate outside SEBI's licensing regime.

This paper examines whether India's existing securities framework adequately addresses the risks inherent in unlisted share trading and

argues that the current regulatory vacuum undermines investor protection and market integrity.

The rapid expansion of India's unlisted share market has created a parallel securities ecosystem operating largely outside the formal regulatory structure governing listed securities. While the listed securities market is comprehensively regulated under the SEBI Act, the SCRA, and the Companies Act, the secondary trading of unlisted shares remains inadequately supervised.

Section 42 of the Companies Act regulates private placement of securities, limiting offers to 200 persons in a financial year³⁰⁰. However, this provision governs issuance, not subsequent transfers. Similarly, Section 2(h) of the SCRA broadly defines "securities,"³⁰¹ yet regulatory oversight under the Act primarily concerns transactions conducted on recognized stock exchanges. The SEBI Act empowers SEBI to protect investor interests under Section 11,³⁰² but enforcement mechanisms predominantly apply to listed entities and registered intermediaries.

As a result, a regulatory gap exists in respect of:

1. Disclosure obligations,
2. Valuation standards,
3. Intermediary registration,
4. Grievance redressal mechanisms.

Retail investors entering the unlisted market often lack access to audited financial statements, risk disclosures, or reliable valuation benchmarks. The absence of exchange-based price discovery increases susceptibility to manipulation. Further, since many intermediaries are not SEBI-registered brokers, investors have limited recourse in cases of fraud.

The Supreme Court of India in *Sahara India Real Estate Corp. Ltd. v. Securities and Exchange Board of India* emphasized that investor

²⁹⁷ Securities Contracts (Regulation) Act, 1956 § 2(h).

²⁹⁸ Companies Act, 2013 s 58.

²⁹⁹ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

³⁰⁰ Companies Act, 2013 § 42.

³⁰¹ Securities Contracts (Regulation) Act, 1956 § 2(h).

³⁰² SEBI Act, 1992 § 11.

protection is a foundational objective of securities regulation³⁰³. Although the case concerned optionally fully convertible debentures, the Court underscored SEBI's duty to safeguard public investors in large-scale securities offerings. The reasoning signals judicial recognition of regulatory responsibility even where statutory ambiguity exists.

Yet judicial intervention cannot substitute for legislative clarity. The absence of an explicit regulatory framework governing unlisted secondary trading creates uncertainty regarding jurisdiction, enforcement, and investor remedies. This paper therefore addresses the core problem: whether India's current securities framework sufficiently protects investors in the trading of unlisted shares.

Issues for Determination

1. Does India's existing securities framework adequately regulate secondary trading of unlisted shares?
2. What structural regulatory gaps expose investors to risk?
3. How have courts and SEBI responded to unlisted securities transactions?
4. How do comparative jurisdictions regulate private secondary markets?
5. What reforms are necessary to balance capital formation with investor protection?

Research Design and Analytical Framework

This research adopts a doctrinal legal methodology, analyzing statutory provisions, delegated legislation, judicial precedents, and regulatory circulars. Comparative analysis is undertaken with reference to the United States Securities Act of 1933³⁰⁴, particularly Rule 144A³⁰⁵, the UK Financial Services and Markets Act 2000³⁰⁶, and Singapore's Securities and Futures

Act³⁰⁷. Secondary sources including journal articles and policy papers supplement statutory interpretation.

Implications for Investor Protection Frameworks

The significance of this research lies in its examination of an emerging yet under-explored area of Indian securities law—the trading of unlisted shares and the regulatory vacuum surrounding it. While India has developed a robust and comprehensive framework for listed securities under the Securities and Exchange Board of India Act, 1992, the Securities Contracts (Regulation) Act, 1956, and the Companies Act, 2013, comparatively little scholarly attention has been given to the legal complexities of secondary trading in unlisted shares. With the rapid growth of start-ups, unicorns, and pre-IPO investments, the unlisted securities market has expanded substantially, attracting both sophisticated and retail investors. However, this growth has occurred without parallel regulatory development, making the issue both timely and legally significant.

The research is also important from a policy perspective. Securities regulation seeks to balance capital formation with investor protection. Over-regulation may discourage private investment, while under-regulation may undermine public trust in financial markets. This paper evaluates whether India's current legal framework strikes this balance effectively. By drawing comparative insights from jurisdictions such as the United States and Singapore, the study offers reform-oriented recommendations grounded in global best practices.

Academically, this research contributes to doctrinal legal scholarship by critically analyzing statutory provisions, judicial interpretations, and regulatory approaches. It bridges the gap between corporate law and securities regulation by examining how private capital markets interact with public regulatory frameworks. Practically, the findings may assist

³⁰³ *Sabara*, (2013) 1 S.C.C. 1.

³⁰⁴ Securities Act of 1933, 15 U.S.C. § 77a.

³⁰⁵ 17 C.F.R. § 230.144A (Rule 144A).

³⁰⁶ Financial Services and Markets Act 2000 (UK).

³⁰⁷ Securities and Futures Act 2001 (Singapore).

policymakers, regulators, legal practitioners, and investors in understanding the risks and proposing structured reforms.

Ultimately, this research is significant because it addresses a growing financial reality in India's capital markets and argues for a coherent regulatory framework that ensures investor protection without stifling entrepreneurial growth.

Is There a Regulatory Vacuum in Unlisted Share Trading?

The primary purpose of this research is to critically examine the regulatory framework governing the trading of unlisted shares in India and to identify the legal gaps that expose investors to financial and informational risks. With the rapid expansion of India's start-up ecosystem and increasing interest in pre-IPO investments, the unlisted securities market has grown significantly. However, unlike listed securities, this segment operates without a comprehensive and clearly defined regulatory mechanism. The research seeks to analyze whether the existing legal framework under the Securities and Exchange Board of India Act, 1992, the Securities Contracts (Regulation) Act, 1956, and the Companies Act, 2013 sufficiently addresses the challenges arising from secondary trading of unlisted shares.

Another key purpose of this study is to evaluate the adequacy of investor protection measures in the context of unlisted share transactions. The research aims to assess issues such as lack of mandatory disclosures, absence of standardized valuation norms, unregulated intermediaries, and limited grievance redressal mechanisms. By examining statutory provisions, judicial precedents, and SEBI's regulatory approach, the study seeks to determine whether the current framework fulfills the fundamental objective of securities law—ensuring transparency, fairness, and market integrity.

Theoretical and Doctrinal Background

The literature on unlisted shares highlights growing concerns around investor risks and legal gaps. Three academic works are particularly significant.

1. R. Sharma, "Investor Protection and the Grey Market of Unlisted Shares in India," *Indian Journal of Corporate Law* (2020).

Sharma argues that unlisted share trading exists in a "regulatory blind spot." SEBI's jurisdiction under the SEBI Act, 1992, is limited to listed securities, leaving investors in unlisted shares without statutory safeguards. The article stresses the absence of **mandatory disclosure norms** and the inability of investors to access reliable information about company performance. Sharma recommends extending disclosure obligations to large unlisted companies whose shares are traded in secondary markets.

2. A. Mukherjee, "Unregulated Intermediaries and Investor Risks: The Case of India's Unlisted Shares," *Journal of Business and Financial Law* (2021).

Aggarwal and Mishra provide a foundational analysis of how the Indian legal system fails to effectively regulate the growing secondary market for unlisted shares. The authors point out that while primary issuance of unlisted shares is governed under the Companies Act, 2013, there is little to no regulatory oversight over secondary trades, particularly those occurring through digital platforms or informal brokers. This legal grey area, they argue, leaves room for exploitative practices such as misleading valuations and non-disclosure of material risks. Furthermore, they highlight that such trades often occur without the involvement of registered intermediaries, which increases the risk for unsuspecting retail investors. The article recommends creating a dedicated SEBI regulation that standardizes disclosures, mandates platform licensing, and enforces legal remedies for fraudulent conduct.

3. S. Khan, “Regulating Private Securities Markets: Lessons for India,” *Law and Policy Review* (2022).

Khan compares India’s regulatory approach with that of the United States. Under **Rule 144A of the U.S. Securities Act of 1933**, trading of privately placed securities is allowed but restricted to **Qualified Institutional Buyers (QIBs)**. This ensures that only sophisticated investors with the ability to bear risk participate. Khan argues that India’s lack of such restrictions exposes retail investors to high risks. The study recommends adopting eligibility norms for investors in unlisted securities.

Together, these works establish that **the unlisted market is under-regulated**, intermediaries operate unchecked, and investors are inadequately protected.

Existing Legal Framework

A. Companies Act, 2013

The Companies Act governs issuance and transfer of securities. Section 42 regulates private placement, limiting offers to 200 persons in a financial year³⁰⁸. However, the provision does not extend to secondary trading among existing shareholders. Section 58 affirms transferability of shares subject to contractual restrictions³⁰⁹. Thus, while transfers are legally valid, the statute does not prescribe trading standards or disclosure norms for off-market transactions.

B. Securities Contracts (Regulation) Act, 1956

The SCRA regulates contracts in securities and recognition of stock exchanges. Section 2(h) defines “securities” broadly³¹⁰, but enforcement mechanisms largely concern exchange-traded securities. Off-market private transfers fall outside continuous regulatory monitoring.

C. SEBI Act, 1992

The SEBI Act empowers SEBI to protect investor interests and regulate securities markets³¹¹. However, practical enforcement focuses on listed companies and registered intermediaries. Unregistered brokers facilitating unlisted share trades operate in a grey area.

Structural Regulatory Gaps in the Trading of Unlisted Shares

Although statutory provisions governing securities exist in India, their application to secondary trading of unlisted shares remains fragmented and incomplete. The absence of an integrated framework creates structural weaknesses that undermine investor confidence and market integrity.

A. Absence of Mandatory Disclosure Norms

Listed companies in India are subject to extensive disclosure obligations under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.³¹² These include periodic financial reporting, disclosure of material events, corporate governance compliance, and continuous price-sensitive information reporting.

Unlisted companies, by contrast, are not bound by such continuous disclosure norms unless they qualify as public companies subject to limited reporting requirements under the Companies Act, 2013³¹³. Even where financial statements are prepared, they are not disseminated in a standardized or publicly accessible format comparable to listed entities.

This creates significant informational asymmetry. Investors purchasing unlisted shares in the secondary market often rely on broker-provided summaries, informal valuation reports, or limited company disclosures. The absence of uniform transparency mechanisms increases susceptibility to misrepresentation and fraud.

³⁰⁸ Companies Act, 2013 § 42.

³⁰⁹ Id. § 58.

³¹⁰ Securities Contracts (Regulation) Act, 1956 § 2(h).

³¹¹ SEBI Act, 1992 § 11.

³¹² SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

³¹³ Companies Act, 2013.

The Supreme Court of India in *Sahara India Real Estate Corp. Ltd. v. Securities and Exchange Board of India* emphasized that securities regulation must prioritize transparency and investor protection when public money is involved³¹⁴. Although Sahara concerned optionally fully convertible debentures, the Court underscored that regulatory intent must prevail over formalistic interpretations. This reasoning is relevant in the context of unlisted share trading, where retail participation increasingly blurs the line between private and public markets.

B. Arbitrary Valuation and Price Discovery Concerns

Unlike listed securities traded on recognized exchanges under the Securities Contracts (Regulation) Act, 1956³¹⁵ unlisted shares lack centralized price discovery mechanisms. Exchange-traded securities derive price through continuous market interaction, regulatory surveillance, and transparency safeguards. In contrast, unlisted share prices are typically determined through bilateral negotiations or broker-driven quotation systems.

Valuation in the unlisted market often relies on private assessments, discounted cash flow projections, or comparable company analysis without regulatory oversight. There is no standardized valuation methodology mandated by SEBI for secondary transfers of unlisted securities.

The absence of price transparency increases the risk of inflated valuations, particularly in pre-IPO hype cycles. Retail investors may purchase shares at speculative prices without access to comprehensive financial information. Such volatility undermines market efficiency and investor confidence.

C. Unregulated Intermediaries

Under the SEBI Act, 1992, SEBI is empowered to regulate intermediaries operating in the securities market³¹⁶. Registered stock brokers, merchant bankers, and depository participants must comply with licensing norms and regulatory supervision.

However, many intermediaries facilitating unlisted share transactions operate outside this registration regime. Since these trades occur off-market and outside recognized exchanges, brokers may not fall squarely within existing SEBI classifications. This creates enforcement challenges.

In 2016, SEBI issued Press Release No. 50/2016 cautioning investors against dealing with unauthorized electronic trading platforms offering unlisted securities³¹⁷. While this demonstrates regulatory awareness, such advisory measures do not constitute a comprehensive supervisory framework.

The absence of mandatory registration requirements for intermediaries in unlisted share trading limits accountability. Investors may face difficulty in seeking redress against fraudulent or negligent conduct.

D. Lack of Grievance Redressal Mechanisms

Investors in listed securities benefit from structured redressal mechanisms, including stock exchange grievance cells and SEBI's SCORES (SEBI Complaints Redress System) platform³¹⁸. These institutional mechanisms provide accessible channels for complaint resolution.

In the unlisted share market, however, investors often lack access to formal grievance platforms. If transactions are conducted through informal brokers or private agreements, enforcement depends largely on contractual remedies under general civil law. Litigation is time-consuming and costly, discouraging investor recourse.

³¹⁴ *Sahara India Real Estate Corp. Ltd. v. Sec. & Exch. Bd. of India*, (2013) 1 S.C.C. 1.

³¹⁵ Securities Contracts (Regulation) Act, 1956.

³¹⁶ SEBI Act, 1992 § 11.

³¹⁷ SEBI Press Release No. 50/2016.

³¹⁸ SEBI Complaints Redress System (SCORES).

The absence of specialized dispute resolution mechanisms exacerbates systemic risk in the unlisted share ecosystem.

Judicial Approach and Regulatory Interpretation

Indian courts have rarely addressed secondary trading of unlisted shares directly. However, judicial pronouncements in related securities matters provide interpretative guidance.

In *Sahara India Real Estate Corp. Ltd. v. Securities and Exchange Board of India*, the Supreme Court held that large-scale issuance of securities to the public, even if structured as private placements, attracts regulatory scrutiny under the SEBI Act and the Companies Act³¹⁹. The Court emphasized substance over form, holding that regulatory objectives cannot be defeated by technical structuring.

The judgment reaffirmed that investor protection is the cornerstone of securities regulation. SEBI's powers under Section 11 of the SEBI Act were interpreted broadly to ensure market integrity.³²⁰

Although *Sahara* did not directly address secondary trading of unlisted shares, its reasoning suggests that where retail investors participate in significant numbers, regulatory oversight becomes imperative. Judicial recognition of SEBI's expansive protective mandate supports arguments for reform.

Comparative Regulatory Analysis

A. United States

In the United States, private securities markets operate within a structured regulatory framework under the Securities Act of 1933.³²¹ Rule 144A permits resale of certain restricted securities to Qualified Institutional Buyers (QIBs).³²²

This model restricts participation to sophisticated investors capable of assessing

risk independently. Secondary markets for private securities, including platforms such as NASDAQ Private Market, operate under regulatory supervision and investor qualification standards.

The U.S. approach balances capital formation with investor protection by limiting retail exposure and imposing intermediary compliance obligations.

B. United Kingdom

The United Kingdom regulates private securities transactions under the Financial Services and Markets Act 2000.³²³ Financial promotions relating to unlisted securities are restricted to professional or high-net-worth investors. Unauthorized promotion to the general public may attract regulatory sanctions.

This gatekeeping mechanism reduces retail investor exposure to high-risk private securities markets.

C. Singapore

Singapore's Securities and Futures Act regulates offers of securities and restricts certain private placements to accredited investors.³²⁴ Secondary transactions involving private securities may be exempt from prospectus requirements but remain subject to anti-fraud provisions and regulatory oversight.

The Singapore model demonstrates calibrated intervention: exemptions exist, but investor classification and anti-misconduct safeguards are enforced.

Forecasted

India's legal framework governing unlisted shares remains fragmented and structurally inadequate, particularly in relation to secondary trading. While primary issuance through private placement is regulated under company and securities laws, the resale of unlisted shares in informal or grey markets operates in a largely unaddressed legal space. This regulatory silence exposes investors to significant risks,

³¹⁹ *Sahara*, (2013) 1 S.C.C. 1.

³²⁰ SEBI Act, 1992 § 11.

³²¹ Securities Act of 1933, 15 U.S.C. § 77a.

³²² 17 C.F.R. § 230.144A.

³²³ Financial Services and Markets Act 2000 (UK).

³²⁴ Securities and Futures Act 2001 (Singapore).

including lack of reliable financial information, speculative and often inflated valuations, and the absence of structured grievance redressal mechanisms. Unlike listed securities, where disclosure norms, price discovery systems, and regulatory supervision ensure transparency, unlisted share transactions are frequently facilitated by unregistered intermediaries operating outside formal oversight. Comparative jurisdictions such as the United States and the United Kingdom mitigate such risks by restricting participation in private securities markets to sophisticated or accredited investors and by subjecting intermediaries to licensing and compliance obligations. In contrast, India lacks a dedicated statutory framework governing secondary trading of unlisted securities. Although judicial interventions—most notably in *Sahara India Real Estate Corp. Ltd. v. SEBI*—demonstrate that courts recognize the dangers posed to public investors when regulatory gaps are exploited, judicial interpretation alone cannot substitute for clear legislative and regulatory measures. Consequently, the present system reflects a pressing need for statutory clarity to balance capital formation with effective investor protection.

Framework for India

In order to address the regulatory vacuum surrounding the trading of unlisted shares in India, a structured reform framework is necessary to balance market efficiency with investor protection. First, all platforms, intermediaries, and brokers facilitating transactions in unlisted securities should be mandatorily registered with the Securities and Exchange Board of India (SEBI) under the Securities and Exchange Board of India Act, 1992. Registration would ensure that such intermediaries are subject to capital adequacy norms, periodic compliance audits, disclosure obligations, and fiduciary duties similar to those applicable to stockbrokers dealing in listed securities. This would reduce the prevalence of fly-by-night operators and enhance

accountability through enforceable regulatory oversight.

Second, mandatory disclosure norms should be introduced for large unlisted public companies whose shares are frequently traded in secondary markets. While imposing the full rigour of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 may not be practical, a calibrated framework could require periodic publication of audited financial statements, details of outstanding share capital, material corporate developments, and risk factors. Such a disclosure-lite regime would reduce information asymmetry while preserving the flexibility that unlisted companies require. These requirements could be implemented through amendments to the Companies Act, 2013 or through dedicated SEBI regulations tailored specifically for actively traded unlisted securities.

Third, standardized valuation norms should be prescribed to minimize arbitrary pricing. Currently, prices in the grey market are often based on speculative demand, anticipated IPO prospects, or broker-driven negotiations. SEBI could mandate the use of recognized valuation methodologies such as discounted cash flow (DCF), comparable company analysis, or net asset value methods, certified by independent valuers. Transparent valuation benchmarks would promote fair price discovery and protect retail investors from inflated or manipulated pricing.

Fourth, investor eligibility criteria should be introduced to restrict participation in unlisted share trading to financially sophisticated participants. Drawing inspiration from Rule 144A under the U.S. Securities Act, participation could be limited to Accredited Investors, Qualified Institutional Buyers (QIBs), or individuals meeting prescribed income or net-worth thresholds. Such a model would align regulatory intensity with investor capacity to absorb risk, thereby reducing the likelihood of retail investors being exposed to high-risk, illiquid instruments without adequate understanding.

Finally, a dedicated grievance redressal mechanism should be established for disputes arising from unlisted share transactions. Currently, investors cannot effectively access SEBI's SCORES platform or stock exchange arbitration processes for such trades. A specialized dispute resolution framework—either through SEBI-administered arbitration panels or a recognized electronic reporting platform—would provide enforceable remedies, improve confidence in the market, and deter fraudulent conduct. Collectively, these reforms would not prohibit the trading of unlisted shares but would formalize and regulate the market, ensuring that capital formation objectives are pursued alongside robust investor safeguards.

Conclusion

The rapid growth of the unlisted share market in India reflects the evolving and increasingly sophisticated nature of the country's capital markets. With the expansion of start-ups, pre-IPO investments, private equity participation, and venture capital funding, demand for early-stage equity participation has surged. Investors are increasingly attracted to unlisted shares in anticipation of substantial gains upon listing. However, this parallel market has developed faster than the regulatory framework designed to govern it. Although existing statutes such as the Companies Act, 2013, the Securities and Exchange Board of India Act, 1992, and the Securities Contracts (Regulation) Act, 1956 provide partial oversight in matters of issuance, disclosure, and investor protection, they do not comprehensively regulate the secondary trading of unlisted securities. This fragmented approach creates a structural gap wherein transactions occur outside recognized stock exchanges, often through informal brokers or digital platforms that operate without clear statutory accountability.

The consequences of this regulatory vacuum are significant. Investors face information asymmetry due to the absence of mandatory periodic disclosures comparable to those required of listed companies. Price discovery

mechanisms lack transparency, leading to speculative or artificially inflated valuations driven by broker narratives rather than standardized financial methodologies. Additionally, unregistered intermediaries facilitate transactions without being subject to licensing requirements, capital adequacy norms, or regulatory audits. In the event of fraud, misrepresentation, or contractual disputes, investors have limited access to formal grievance redressal systems. This undermines market integrity and weakens confidence in India's broader securities ecosystem.

To safeguard investor interests and maintain systemic credibility, India must move toward a comprehensive and calibrated regulatory framework for unlisted securities trading. Drawing from global best practices, reforms should prioritize mandatory registration of intermediaries, introduction of proportionate disclosure requirements for actively traded unlisted companies, standardized valuation guidelines, and eligibility restrictions limiting participation to financially sophisticated or accredited investors. Such measures would not stifle capital formation but would instead formalize the market, enhance transparency, and align risk exposure with investor capacity. Without these reforms, the unlisted securities segment will continue to function in a regulatory grey zone, potentially eroding investor confidence and diminishing the credibility of India's financial system in the long term.