

## INSIDER TRADING AND ITS IMPACT ON CORPORATE GOVERNANCE PRACTICES IN INDIA: A LEGAL AND REGULATORY ANALYSIS

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**BEST CITATION** – ANIKET LODHI, INSIDER TRADING AND ITS IMPACT ON CORPORATE GOVERNANCE  
PRACTICES IN INDIA: A LEGAL AND REGULATORY ANALYSIS, *INDIAN JOURNAL OF LEGAL REVIEW (IJLR)*, 6 (7)  
OF 2026, PG. 789-798, APIS – 3920 – 0001 & ISSN – 2583-2344.

### ABSTRACT

Insider trading is a major regulatory concern for securities markets in emerging markets such as India, in terms of preventing insider trading for ensuring market integrity, efficiency and transparency. It violates the concept of market efficiency by enabling certain persons, like directors, employees or related persons to use unpublished price sensitive information (UPSI) to trade securities. This doctoral thesis reviews regulatory and legislative provisions relating to insider trading in India and assesses how it affects corporate governance.

The analysis is mainly confined to the role of the Securities and Exchange Board of India (SEBI) – the primary regulatory body established under the Securities and Exchange Board of India Act, 1992. It also assesses the impact of the SEBI (Prohibition of Insider Trading) Regulations, 2015, which constitute a robust framework to curb the misuse of UPSI and ensure equity in the trading practices of companies. This study examines the progression of insider trading regulations in India from the early disclosure-based approach under the Companies Act, 1956 to the current "enforcement" approach.

The paper further examines the links between insider trading and corporate governance. The presence of effective regulatory measures, including disclosure norms, trading bans, codes of conduct, and compliance frameworks, are vital to improving the corporate governance structure by increasing accountability, transparency and integrity. The paper provides insights into how enforcement by SEBI helps improve corporate governance through prevention of fraudulent activities and enhancing investor trust.

Nonetheless, despite clear legal framework, there are challenges in enforcing insider trading laws. These challenges include proof problems, technological progress enabling covert forms of communication, and cross-border trading. This paper critically examines these issues and stresses the importance of ongoing regulatory reforms, enhanced monitoring mechanisms and global cooperation. Overall, the study underscores that effective insider trading regulation is indispensable for maintaining fair securities markets and fostering long-term investor trust in India's financial system.

**Keywords**- Insider Trading, Corporate, Governance, Unpublished Price, Sensitive Information, Securities Market Regulation and Investor Protection

### INTRODUCTION

One of the most severe threats to the integrity, transparency and fairness of financial markets

is the insider trading. Securities markets exist on the principle that every investor is supposed to have similar access to information that is relevant in making investment decisions. By

using the confidential information to secure unfair monetary benefits, especially relatives, employees or directors of a company, insiders destroy investor trust and create imbalance in the market. Regulation of insider trading is thus very important in keeping markets clean and enhancing corporate governance services.

In India, the legal system regulating insider trading has been undergoing changes, as the capital markets become more complex and as the protection of the investors becomes more important. The regulator of interest is principally the Act, the Securities and Exchange Board of India Act, 1992 (SEBI Act) and the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations). These are rules meant to deter misuse of Unpublished Price Sensitive Information (UPSI) and to make price trading in securities markets to be fair and transparent.

This regulatory structure is mainly centered around the role played by the Securities and Exchange Board of India (SEBI). SEBI is the main regulatory body, which controls the securities markets, investigates suspicious operations, imposes compliance, and punishes violations. SEBI has added various amendments to the rules against insider trading in order to enhance the standards of disclosure and to increase the corporate governance systems with time.

This chapter is the critical analysis of the legal and regulatory framework of insider trading in India. It discusses the evolution of insider trading regulations in the past, the functions of SEBI,

the provisions of the SEBI (Prohibition of Insider Trading) 2015 Regulations, which are relevant to the subject, amendments over the last few years, and the sanctions and sanctions imposed on insider trading. Moreover, the chapter also assesses the performance of the current legal framework and mentions the difficulties of its enforcement

## 2. Insider Trading laws of India: development of the law.

### 2.1 Early Regulatory Framework

The detection of insider trading in India has had a start with a small amount of disclosure on the part of the corporate law. Before the introduction of specific securities regulation, the issue of insider trading was indirectly tackled by the companies act 1956. The sections 307 and 308 of the Act obligated directors as well as some officers of a company to declare their shareholdings and their change in ownership.<sup>1223</sup>

These were mainly meant to enhance transparency in corporate management as opposed to the prevention of insider trading as such. Even though they had imposed disclosure responsibility, they had no powerful enforcement measures and did not clearly forbid trading under confidential information. Consequently, the initial legal system was ineffective in this regard of ensuring that the market was not abused.<sup>1224</sup>

The swift growth in securities market in India in the 1970s and 1980s has indicated the necessity of elaborate regulatory regime to deal with insider trading. The further involvement of investors, the development of stock exchanges, the appearance of complex financial tools created the need to implement more serious regulatory control.<sup>1225</sup>

### 2.2 Committee Recommendations

The Government of India had several expert committees who greatly contributed to the formulation of insider trading regulations.

**Sachar Committee (1978):** The Sachar Committee dealt with the matters of company law and corporate governance. The committee highlighted the dangers involved in insider trading and suggested that the special legal

<sup>1223</sup> NK Seth, 'An Overview of the Legal Regime against Insider Trading in India: Evolution, Provisions and Recent Trends' (2022) 3 Indian Journal of Law and Legal Research.

<sup>1224</sup> T Lesley, 'Insider Trading and Its Regulatory Framework in India' (2022) 2 Indian Journal of Integrated Research in Law.

<sup>1225</sup> P Ganesh and S Khan, 'Insider Trading Regulations in India: A Comparative and Critical Analysis of SEBI's 2015 PIT Regulations' (2013) GNLU Law Review.

provisions should be introduced to curb the abuse of internal company information by the insiders.<sup>1226</sup>

Patel Committee (1986): Patel Committee gave a closer analysis of insider trading. It put an emphasis on the need to define insider trading legally, and suggested that people who had unpublished price sensitive information should not be able to trade. The committee also emphasized that a greater enforcement mechanism is required.<sup>38</sup>

Abid Hussain Committee (1989): The Abid Hussain Committee was very instrumental in suggesting reforms in the capital markets of India. The committee made the suggestion to set up a special regulatory body to regulate securities markets, and recommended introducing civil and criminal punishment in breaches of insider trading.<sup>1227</sup>

Such recommendations later turned out to be the foundation of the development of a comprehensive securities regulatory framework in India.

### 2.3 SEBI and the Introduction of insider Trading Rules.

The key milestone in terms of insider trading regulation was with the passing of the SEBI Act, 1992 which created the regulatory presence of the Securities and Exchange Board of India (SEBI) as the main regulator over the securities markets in India.

The introduction of the SEBI, the SEBI (Prohibition of Insider Trading) Regulations, 1992 was initiated to deal directly with the issue of insider trading. These rules banned the trade of unpublished sensitive information of prices and mandated companies to have internal codes of conduct to govern insiders trading.<sup>1228</sup>

Nonetheless, the regulations of the year 1992 were deemed insufficient because of the lack of definitions and suitable enforcement mechanisms. As a result, the rules were revised several

times and the new framework was developed, i.e., SEBI (Prohibition of Insider Trading) Regulations, 2015 replaced the previous framework and became much more effective in terms of enforcing the insider trading laws in India.

### 3. SEBI role in Insider Trading Regulation.

#### 3.1 SEBI and its Foundations and Purposes.

Securities and Exchange Board of India (SEBI) was created on the basis of the SEBI Act, 1992 and its main goal is to safeguard the interests of investors and to regulate the securities market. The Act has given SEBI very wide powers to control market intermediaries, enforce securities laws and transparency in market operations.<sup>1229</sup>

SEBI has the following objectives:

- Insurance of the interest of the investors.
- Encouragement of beneficial and effective securities markets.
- Fraud and unfair trade practices prevention.
- Market intermediaries regulation.
- Imposition of laws against insider trading.

SEBI is very instrumental in this way through its regulatory powers in ensuring that the capital markets in India run smoothly as well as the confidence of investors.

#### 3.2 Powers of SEBI

The SEBI Act grants extensive authority to the SEBI to control the securities markets and to investigate the cases of insider trading.

<sup>1226</sup> S Chakraborty, 'Insider Trading in India' (2022) 3 International Journal of Law Management & Humanities

<sup>1227</sup> K Sharma, 'Insider Trading – An Analysis of Indian Legal Position' (2021) Indian Journal of Law and Legal Research.

<sup>1228</sup> *Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 2015*, notified under the Securities and Exchange Board of India Act 1992.

<sup>1229</sup> *Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 2015*, India, issued under s 30 of the *Securities and Exchange Board of India Act 1992*.

### Regulatory Powers

SEBI has the mandate to structure regulations that focus on insider trading, corporate disclosure and market behavior. It will be able to provide directives and circulars to enforce compliance on the listed companies and market intermediaries<sup>40</sup>.<sup>1230</sup>

### Investigative Powers

SEBI is given powers to investigate suspected cases of insider trading. It can:

- Request information and documents by companies and intermediaries.
- Interview witnesses and take notes.
- Carry out inspections and audits.
- Get trading history and trade communications.

Such investigative capabilities allow the SEBI to identify suspicious trading practices and identify a person who engages in insider trading.

### Enforcement Powers

Some of the enforcement measures that SEBI can take against transgressors include:

- Monetary penalties
- Disgorgement of illegal profits.
- Cancellation or suspension of licenses.
- Market access restrictions

SEBI can also send serious cases to be prosecuted by the relevant courts.

### 3.3 Surveillance Mechanisms in the Market.

SEBI has high-level surveillance systems to identify insider trading. These systems are used to track trading trends, price fluctuations and transaction information in stock exchanges.

Automated surveillance systems are used to analyze suspicious trades and conduct additional investigation to indicate the possibility of an insider trading taking place.

SEBI also liaises with stock exchanges and other market monitors to enhance monitoring of the markets.<sup>1231</sup>

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

#### 4.1 Objectives and Scope

The governing law in the country is the SEBI (Prohibition of Insider Trading) Regulations, 2015 that forms the main legal foundation of insider trading in India.<sup>1232</sup> These rules are added as a replacement of the previous SEBI (Prohibition of Insider Trading) Regulations, 1992, which were not believed to be very efficient because of unclear definitions, procedural constraints, and inadequate enforcement tools. The 2015 regulations came into being as recommendations of the Justice N.K. Sodhi Committee which sought to increase the regulatory framework, improve the market transparency as well as align the insider trading laws of India with the international standards.

The main aim of SEBI (Prohibition of Insider Trading) Regulations, 2015 is to stop misuse of Unpublished Price Sensitive Information (UPSI) by the people, who possess access to the confidential corporate information. Insider trading compromises the equality of information which prevails in securities markets and unfairly benefits those people who have access to privileged information. Thus, the rules are designed to enforce fairness, transparency and integrity in securities markets, which is done by barring trading on the basis of such confidential information.

The other aim of the regulations is to encourage fair trading in the capital market. The securities markets work well when everybody as an investor has an equal access to information. When some people use confidential information to make personal financial profit, it will make the markets less efficient and lower the level of

<sup>1230</sup> Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 2015 (India).

<sup>1231</sup> Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 2015, made under s 30 of the Securities and Exchange Board of India Act 1992.

<sup>1232</sup> Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 2015, SEBI/LAD-NRO/GN/2014-15/21 (notified 15 January 2015).

investor confidence. The rules are thus meant to see that the trading in securities is put on the ground of information made publicly.

The laws are also influential in enhancing corporate governance in India. The regulations make a company, directors and key management personnel to comply with strict compliance requirements, thus making sure that firms have internal controls that would stop insider trading. These involve development of codes of conduct, hiring of compliance officers and development of internal system of monitoring.<sup>1233</sup>

Moreover, the rules are meant to further protect investors by providing that the securities markets are conducted in a transparent and fair way. Capital markets would not grow and develop without the investor confidence, and robust insider trading laws also help in ensuring investor confidence.

The regulations are very comprehensive and extend to large group of people and organizations that are related to listed companies. These are directors, promoters, employees, auditors, consultants, legal advisors, and any other person who can access unpublished price sensitive information. The regulations also extend to people who might access such information indirectly making sure that even people who are not directly affiliated to a company can be held to a liability in case they misuse confidential information.

#### 4.2 Key Definitions 4.2.1 Insider

According to the SEBI (Prohibition of Insider Trading) Regulations, 2015, insider is a very broad term, which is implemented to cover all persons who might have access to corporate insider information. The regulations consider an insider as any individual who is a connected person or an individual, who is in possession of unpublished price sensitive information. This

definition has greatly broadened the liability in the laws of insider trading.<sup>1234</sup>

The fact that one of the conditions is the incorporation of people who simply own unpublished price sensitive data will guarantee that insider trading regulations will not be confined to corporate officers or employees. Even those who get such information indirectly, e.g. a friend,

Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 2015, India, issued under s 30 of the Securities and Exchange Board of India Act 1992.

relative or professional associate may be classified as insiders in case they trade securities relying on such information. This broad definition is important as it helps to make sure that people do not bypass insider trading laws using some indirect routes.

The regulatory framework thus places more weight on the aspect of possession of information and not on the title of a person in an organization. Whenever an individual trades in securities, and they are in possession of UPSI, they can still be guilty of insider trading irrespective of the manner in which the information was acquired.

#### 4.2.2 Connected Person

The regulations also have an elaborate definition of a connected person. Any person who is in a relation with a company in such a way that he/she can gain access to unpublished price sensitive information is a connected person.

The persons who are usually connected are the directors, officers, employees, promoters and key managerial personnel of the company. The definition, however, is also applied to professional advisors and intermediaries, who might receive confidential information during their professional work. They are auditors, lawyers, investment bankers, consultants

<sup>1233</sup> SEBI (Prohibition of Insider Trading) Regulations 2015 Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 2015 (as amended) [<https://www.sebi.gov.in/legal/regulations/> accessed 1 April 2026.

<sup>1234</sup> Bombay Stock Exchange BSE, 'Guidelines on Prevention of Insider Trading' [<https://www.bseindia.com>] accessed 1 April 2026.

among other professionals that offer services to the company.<sup>1235</sup>

Moreover, insider relatives can also be regarded as connected persons in case of having a reasonable likelihood to access the confidential information. The fact that they include relatives is in accordance with the fact that sensitive information can be in many instances exchanged in an informal manner among close personal relationships.

The associated idea of connected persons consequently represents the regulatory goal of the denial of the misuse of confidential data by people closely connected to a firm and who might possess the access to price sensitive data.<sup>1236</sup>

Unpublished Price Sensitive Information (UPSI).

One of the key theories of insider trading regulation is Unpublished Price Sensitive Information (UPSI). Any information regarding a company or its securities that are not accessible to the public and which, in the event of disclosure, is likely to have a significant effect on the price of the securities of that company are said to be UPSIs.

This kind of information is regarded as very sensitive in that it may affect the investments and a lot in the market prices. When insiders buy or sell securities using this information other than it is publicly announced; they have an unfair advantage over other investors.

The regulations offer a number of examples of information, which can be considered as UPSI. They are financial performance of the company, announcement of dividends, acquisition and merger, replacement in key management staffs and significant expansion or reorganization intents. UPSI may also be information pertaining

to the important alterations in capital structure or the strategic decisions.<sup>1237</sup>

The basis of the insider trading violations is the misuse of UPSI. The laws, therefore, place stringent limitations on the usage, acquisition, and sharing of such information to make sure the information is not used to make individual financial profits.

## 5 Trading Restrictions and Compliance Mechanisms.

5.1 The Trading of Insiders is also outlawed.

The SEBI (Prohibition of Insider Trading) Regulations, 2015 specially forbids the investment of securities by insiders who have unpublished price sensitive information. The laws also restrict the use or acquisition of UPSI other than suitable causes, discharge of duties, and legal requirements.

This ban rests on the fact that the trading of securities must be done on the ground of publicly available information. In situations where insiders use confidential information, they end up having an unjust advantage over other investors and hence losing market fairness and efficiency.<sup>1238</sup>

Thus, the rules provide tight limits to the trading as well as dissemination of confidential information. Anyone who buys or sells securities with possession of UPSI can be liable to the insider trading offense despite the chance that he or she acquired information through an indirect manner.

5.2 Trade Window Requirements.

Trading window system is also one of the main compliance mechanisms implemented under the regulations. The trading windows are established where the listed companies are required to have trading persons during a particular time when they can trade the securities of such a company.<sup>45</sup>

<sup>1235</sup> SM Alawi, 'The Role of Corporate Governance towards Insider Trading Profitability' (2025) *Journal of Economic and Administrative Sciences* (Emerald).

<sup>1236</sup> 43 Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 2015 (India).

<sup>1237</sup> M Iqbal and S Santhakumar, 'Information Asymmetry and Insider Trade Profitability in India' (2018) *Journal of Indian Business Research*.

<sup>1238</sup> Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 2015, made under s 30 of the Securities and Exchange Board of India Act 1992.

The trading window is normally shut down at the times that the insiders are likely to have unpublished information related to price sensitivity. An example of such is that trading windows are usually closed prior to release of financial results, mergers, acquisitions or other large corporate decisions.

This time, the insiders and employees assigned to do so are forbidden to buy and sell securities of the firm. This is meant to ensure that insiders do not use confidential information that would affect the stock prices.

### 5.3 Trading Plans

The regulations also bring the trading plans on board, which enable trading of securities to be carried out in a systematic and transparent manner by the insiders. Within this mechanism, insiders can have in place trading plans which indicate when, and how much to trade.

The compliance officer of the company should approve such trading plans and announce them ahead of time to the stock exchanges. Upon a approved trading plan, the insider is allowed to trade in compliance with the plan after which he/she will not be in breach of insider trading laws as long as the plan was made when the insider was not in possession of UPSI.<sup>1239</sup>

The trading plans are to allow flexibility of insiders who might require trading securities due to the genuine necessity but making sure that such transactions are transparent and in accordance with regulatory provisions.

### 5.4 Code of Conduct

SEBI (Prohibition of Insider Trading) Regulations, 2015 forces all listed companies to establish a Code of Conduct to govern insider trading in the organization. The code of conduct is an internal code of conduct that is meant to help in curbing the misuse of confidential information.

The code usually contains areas of overseeing trading activities of specific personalities, reporting, limitations in trading during blackout hours and facilities of receiving pre-clearance to trade. The companies also must have a compliance officer who would be in charge of enforcing the code and making sure that the insider trading regulations are followed.

Such codes of conduct enhance the practice of corporate governance since they help in ensuring accountability and transparency in organizations.

### 6 Disclosure Requirements

In the insider trading regulations, the strict disclosure duties are required to the insiders to increase transparency in securities markets. These are the disclosure requirements that help the regulatory authorities to oversee the trading activities and also detect suspicious transactions.

Initial disclosures of shareholding in the company have to be made by promoters, directors and key managerial personnel at the time of appointment. This will guarantee regulators and investors the ownership interests of those in a position of influence.<sup>1240</sup>

Besides the disclosures made by the insiders at the onset of when they entered into the agreement, they must also make regular disclosures whenever they change their shareholding more than a set level. Such disclosures should be done both to the company and to corresponding stock exchanges within specified period.

Even the companies themselves are obligated to keep records of people who have access to unpublished price sensitive information. Such records will assist the regulating parties to monitor the flow of confidential information and research possible cases of insider trading.

<sup>1239</sup> 45 Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 2015, SEBI/LAD-NRO/GN/2014-15/21 (notified 15 January 2015).

<sup>1240</sup> BV Phani, VN Reddy and N Ramachandran, *Insider Ownership, Corporate Governance and Corporate Performance* (2005).

## 7 Amendments to Insider Trading Regulations.

The regulatory environment of insider trading has been developed by a series of amendments to enhance enforcement policies and deal with the new challenges in the securities market.

There were also major changes in the 2018 amendments such as the mandatory maintenance of Structured Digital Database (SDD) in which the companies keep the information about the people that unpublished price sensitive information is shared with. Such database assists regulators to trace how the confidential information circulates and whether they are being leaked.

It was also through the amendments that internal control systems were enhanced in the companies and the duties of the compliance officers were expanded. These were aimed at enhancing corporate accountability as well as enhancing monitoring of insider trading activities.<sup>1241</sup>

In the recent times, the amendments have broadened the ambit of insider trading laws by including the scope of connected persons and the increased disclosure requirements. These reforms are indicative of the current attempts by SEBI to change regulatory frameworks to changing market environment and technological changes.

## 8 Sanctions and Implementation Processes.

The contravention of the rules of insider trading is met with heavy fines and penalties by the SEBI Act, 1992. These fines are aimed at being stiff deterrents against market misconduct and to ensure investor confidence in securities markets.

Section 15G of the SEBI Act provides that when a person is convicted of engaging in insider trading he may be called upon to pay monetary fines between 10 lakh and 25 crore or three times the profit acquired, whichever is greater.

Besides giving financial fines, SEBI can direct the<sup>1242</sup>

disgorgement of profits where the violators have to give back the illegal profits they have acquired due to insider trading.

SEBI can also place market restrictions like prohibiting the persons to access securities markets or even occupy a position in the listed companies. Deliberate and large-scale insider trading may attract criminal prosecution in severe cases which could lead to up to ten-year imprisonment.

These enforcement mechanisms are vital in securities markets credibility and integrity.

### 9 Enforcement Challenges

Although there is already a well-developed regulating system, insider trading laws are still difficult to enforce.

The fact that insider trading is difficult to prove is one of the significant challenges. Regulators should ensure that there is a direct relationship existing between the ownership of unpublished prices sensitive information and the trading transactions. 46As insider trading usually takes place through indirect means of communication and through the informal flow of information, it may be difficult to get enough evidence.

Also, the new challenges to regulators are brought by technological developments. The proliferation of encrypted communication programs and digital communication infrastructures makes it harder to track the path of confidential information.

The issue of globalization of financial markets makes it even harder to enforce. The activities of the insider trading can be disguised with the help of cross-border transactions and offshore accounts, and local regulators will hardly be able to investigate them.

<sup>1241</sup> SK Nanda and P Barai, 'Effect of Insider Trading on Stock Characteristics' (2021) *Asian Journal of Accounting Research*.

<sup>1242</sup> SK Nanda and P Barai, 'Effect of Insider Trading on Stock Characteristics' (2021) *Asian Journal of Accounting Research*.

<sup>52</sup> MK Sidhu and P Kaur, 'Effect of Corporate Governance on Stock Market Liquidity: Empirical Evidence from Indian Companies' (2019) *Decision*.

Moreover, to enforce it, specific skills and technical equipment to study sophisticated financial operations are needed. Lack of adequate resources and manpower in the regulatory agencies can occasionally be a hindrance to the speed and effectiveness of investigations.<sup>1243</sup>

## 10 Conclusion

The insider trading regulation in India has changed greatly in the last few decades. The creation of SEBI and the entry of the SEBI (Prohibition of Insider Trading) Regulations, 2015 have established a new legal system that seeks to control unethical manipulations of confidential information in securities markets.<sup>47</sup>

The regulatory framework aims at ensuring fair play, transparency, and confidence in investors through stiff disclosure, trading restrictions, and enforcement mechanisms. New amendments that have been made over the last few years have further enhanced the mechanisms of compliance and surveillance.

But, there are still some difficulties in the successful implementation of laws against insider trading. Regulators are still challenged by technological developments, international dealings, and evidentiary issues. To overcome these difficulties, it is necessary to provide ongoing control through changes in regulations, enhance the system of surveillance, and increase collaboration between countries.

On the whole, the Indian regulatory environment has come a long way in fighting with insider trading, but it takes continuous efforts to help capital markets to be driven by integrity and the corporate governance standards have to keep on increasing.

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<sup>1243</sup> SEBI (Prohibition of Insider Trading) Regulations 2015 Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 2015 (as amended) [<https://www.sebi.gov.in/legal/regulations/> accessed 1 April 2026.

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