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JUDICIAL RESTRAINT IN REGULATORY APPEALS: CASE COMMENTARY ON SECURITIES AND EXCHANGE BOARD OF INDIA VS MEGA CORPORATION LIMITED

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Introduction:

In the case of MCL [Mega Corporation Limited] versus SEBI, there are allegations of market price manipulation, misstatements to the public and false financial reporting during 2005. A one-year ban from the market was imposed by SEBI but later reversed by the Securities Appellate Tribunal (SAT) as there was no substantial evidence. SEBI then challenged the findings of SAT, including the right granted to an entity to cross-examine witnesses, before the SC under Section 15Z of the SEBI Act.

The Supreme Court dismissed the appeal¹, reiterating that it is not its domain to re-appreciate facts, its jurisdiction is confined to substantial question of law and not to facts. It affirmed SAT's finding that MCL's business transactions were genuine and SEBI's charges defamatory. The Court also explained that cross-examination is not required in all regulatory proceedings but is to be determined case-by-case.

The decision is boon for judicial restraint, tribunal competence, and the requirement for evidence fulness in SEBI enforcement proceedings; an important precedent established under Indian securities law.

Facts:

The case is between Mega Corporation Limited (MCL) and Securities and Exchange Board of India (SEBI)². MCL was listed on the Bombay Stock Exchange in 1996 and had a primary business of a radio taxi service and share dealing. SEBI had examined the abnormal price

¹ 2022 INSC 344

² *Sebi*, SEBI vs Mega Corporation Ltd. (Mar. 19, 2009), <https://www.sebi.gov.in/enforcement/orders/mar-2022/judgment-of-the-hon-ble-supreme-court-in-civil-appeal-no-2104-of-2009-sebi-vs-mega-corporation-ltd-59497.html>.

movement of MCL shares between the months of January to September 2005, during which the stock price had increased from ₹4.25 to ₹43.85, and average monthly volume had swollen to more than 15 million shares.

SEBI directed a show-cause notice to MCL, its directors, and related parties. SEBI charged non-compliance with the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003 (PFUTP Regulations). MCL was charged with price manipulation of its shares, making false public statements to attract investors, and failure to properly disclose its profits. SEBI prohibited MCL and its directors from the capital market for one year.

The order of SEBI was upheld by the Securities Appellate Tribunal (SAT). SEBI appealed in the Supreme Court under Section 15Z of the SEBI Act, 1992.

Arguments:

SEBI's Argument:

SEBI had relied on four crucial grounds in their case. First, SEBI had argued that MCL artificially manipulated the stock price through staged transactions and associations with parties having off-market deals. The deals had the aim of creating artificial demand, misguiding investors. Second, SEBI had argued that MCL's public announcements, such as a proposed entry into foreign exchange business and overseas tourism, were not true and were made to entice investors. The announcements promised huge profits not based on reality. Third, SEBI had argued that MCL manipulated accounts to reflect extraordinary profits in 2004-05 with the aim of enticing investors. The abnormal increase in the profits, disproportionate to the business of the company, was indicative of a fraud. Fourth, SEBI had argued that it had not infringed the principles of natural justice by failing to give an opportunity to MCL to cross-examine the authors of certain crucial reports. SEBI had argued that it was not required to offer cross-examination in regulatory proceedings of this kind.

MCL's Argument:

MCL refuted the allegation of manipulation and presented that the rise in share price and volume was a result of its legitimate business activity. MCL averred that its entry into new business segments such as foreign exchange services and tourism was based on legitimate agreements supported by documents. MCL presented further that extraordinary profits, even if

unexpected, do not necessarily imply manipulation or illegality. The company averred that SEBI failed to present concrete evidence that profits were artificially inflated to mislead investors. Further, MCL presented that SEBI's reliance on stockbrokers' letters without giving it an opportunity to cross-examine authors violated the canons of natural justice. MCL presented that cross-examination was necessary to challenge the admissibility of evidence filed against it. MCL presented that SEBI's allegation was based on speculations and not on concrete evidence, and the company's actions were misinterpreted by SEBI as fraudulent.

Issues Raised:

1. What is the scope of appeal under Section 15Z of the SEBI Act?
2. Whether the advertisements published by MCL violated PFUTP Regulations by misleading and defrauding investors.
3. Whether MCL manipulated its share prices and accounts, violating SEBI's PFUTP Regulations.
4. Whether MCL had the right to cross-examine witnesses, especially concerning a key document relied upon by SEBI.

Decision:

The Supreme Court dismissed SEBI's appeal, affirming that the findings of the Securities Appellate Tribunal (SAT) were based on facts and did not raise any substantial questions of law that would warrant intervention under Section 15Z of the SEBI Act³. The Court clarified that its appellate jurisdiction is confined to legal questions, and since SAT's conclusions were drawn from factual inferences, judicial interference was unnecessary. The Court upheld SAT's decision that MCL's advertisements were legitimate business communications based on agreements, and there was no evidence of misleading conduct as alleged by SEBI. Similarly, SEBI's accusations of share price manipulation were deemed speculative, lacking clear evidence linking MCL to orchestrated trades or market manipulation.

Regarding cross-examination, the Supreme Court partially overruled SAT's broad observation that cross-examination is always necessary in SEBI proceedings. The Court held that cross-examination is not required in every regulatory case, and such determinations must be made

³ GSL Chambers, *Scope & Ambit of Statutory Appeal Under Section 15Z of The SEBI Act, 1992*, GSL Chambers (Aug. 18, 2022), <https://gslc.in/scope-ambit-of-statutory-appeal-under-section-15z-of-the-sebi-act-1992/>.

on a case-by-case basis. In this particular instance, the lack of cross-examination did not invalidate the proceedings or SAT's conclusions. Ultimately, the Court upheld SAT's fact-based decision, allowing MCL to continue its business activities and rejecting SEBI's claims of fraud and manipulation, while also clarifying the limited role of cross-examination in regulatory inquiries.

Analysis of Precedents cited in the Judgement:

1. **Videocon International Ltd. v. Securities Exchange Board of India (2015) 4 SCC 33**, in this case, the Supreme Court addressed the scope of appellate jurisdiction under Section 15Z of the Securities and Exchange Board of India Act, 1992, which was cited in this case, to clarify the nature of appeals from the Securities Appellate Tribunal (SAT). the court observed as follows :

“38.A right of appeal may be absolute, i.e., without any limitations. Or, it may be a limited right. The above position is understandable, from a perusal of the unamended and amended Section 15-Z of the SEBI Act. Under the unamended Section 15-Z, the appellate remedy to the High Court, against an order passed by the Securities Appellate Tribunal, was circumscribed by the words “...on any question of fact or law arising out of such order”. The amended Section 15-Z, while altering the appellate forum from the High Court to the Supreme Court, curtailed and restricted the scope of the appeal, against an order passed by the Securities Appellate Tribunal, by expressing that the remedy could be availed of “...on any question of law arising out of such order.”. It is, therefore apparent, that the right to appeal, is available in different packages, and that, the amendment to Section 15-Z, varied the scope of the second appeal provided under the SEBI Act.”

This reference helped the Supreme Court in the Mega Corporation case to uphold the Tribunal's factual determinations, intervening only in instances of clear legal error, thus reinforcing the principle that the Tribunal is better suited for factual assessments and the evolution of legal interpretations within the regulatory framework.

2. **Jones v. First Tier Tribunal (2013) UKSC 19**, The UK Supreme Court highlighted that tribunals are particularly well-suited to determine issues of law and fact due to their expertise and familiarity with the specific regulatory framework. The court held that :

“16 ... It is primarily for the tribunals, not the appellate courts, to develop a consistent approach to these issues [of law and fact], bearing in mind that they are peculiarly well fitted to determine them. A pragmatic approach should be taken to the dividing line between law and fact, so that the expertise of tribunals at the first tier and that of the

Upper Tribunal can be used to best effect. An appeal court should not venture too readily into this area by classifying issues as issues of law which are really best left for determination by the specialist appellate tribunals.”

The Supreme Court of India relied on the case of **Jones v. First Tier Tribunal** to emphasize the principle that it is primarily the role of tribunals, rather than appellate courts, to develop a consistent approach to distinguishing between questions of law and questions of fact. This reliance is significant in the context of the appeal under Section 15Z of the Securities and Exchange Board of India Act, 1992, where the Supreme Court's jurisdiction is limited to questions of law arising from the decisions of the Securities Appellate Tribunal (SAT).

Analysis of the Case:

In this Present case, The Supreme Court's judgment has several aspects that contribute to the integrity of regulatory processes. Firstly, it upholds the principles of natural justice by recognizing the importance of the right to cross-examine, thereby ensuring that the lack of such an opportunity violated these principles.

Furthermore, the precedent ruling makes clear the Supreme Court's jurisdictional boundaries under Section 15Z of the SEBI Act, highlighting that its purview is limited to legal matters. This helps keep appellate courts from going beyond their bounds and preserves the integrity of regulatory procedures. A checks-and-balances system within the regulatory framework is promoted by the ruling, which also strengthens the Securities Appellate Tribunal's (SAT) ability to interpret facts and evidence and overturn SEBI's conclusions drawn from independent assessments.

Furthermore, the ruling promotes regulatory accountability by requiring SEBI to provide unambiguous evidence to support its claims. This guarantees that regulatory bodies' actions are not capricious but rather supported by strong evidence. The Court's focus on the need for hard proof to back up claims of fraud and manipulation encourages a stricter standard for regulatory investigations, which can greatly improve the securities market's credibility.

The ambiguity in distinguishing between questions of law and questions of fact, however, was one of the many shortcomings that could cause inconsistencies in subsequent cases and make the appellate process more difficult for parties determining the viability of their appeals. Then, by

limiting the Supreme Court's ability to review factual determinations made by the Securities Appellate Tribunal (SAT), the ruling may inadvertently restrict SEBI's oversight capabilities, potentially allowing fraudulent activities to continue unchecked.

Furthermore, the Court's decision to set aside the Tribunal's finding on cross-examination while upholding other conclusions creates inconsistencies in the application of legal principles, leading to confusion about evidence treatment and parties' rights in regulatory proceedings. Lastly, the ruling may embolden regulatory bodies to act with less caution, as their factual determinations are less likely to face scrutiny from the Supreme Court, resulting in a risk of regulatory overreach that undermines the rights of companies and individuals in the securities market.

Conclusion:

The Supreme Court decision in *SEBI v. Mega Corporation Limited* reaffirms the principle of judicial restraint to the degree that appellate courts do not review factual findings reached by tribunals like SAT. The decision supports the role of material evidence in enforcement by regulators and clarifies that cross-examination is not a privilege in such proceedings. In limiting its jurisdiction to issues of law, the Court promotes the institutional strength of tribunals in regulation of securities. Concerns remain, however, of weakened oversight on factual errors and potential regulatory overreach.

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