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# **BUILDING TRUST IN TRADING: SEBI'S LEGAL AND STRATEGIC PUSH FOR TRANSPARENCY IN SECONDARY MARKETS**

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## **ABSTRACT**

Transparency is essential for secondary markets to function well and to enable investors to feel confident in their trading systems. In India, the institutional oversight for the capital market is centred around the Securities and Exchange Board of India (SEBI) through legal frameworks and mandates imposed by SEBI and other market institutions. This paper considers the regulatory approach of SEBI in embedding transparency as a regulatory tool for market discipline by assessing SEBI's disclosure requirements and legal obligations of corporate governance, monitoring, and enforcement. Based on scholarly works and regulatory reports, the paper suggests that SEBI's role has evolved from a prescriptive rule-making agency to a strategic actor in promoting trust in trading. While these regulations are contributing to greater accountability and diminished asymmetries of information, there are remnants that still need to be resolved such as compliance fatigue and arbitrage possibilities, all while determining whether too many regulations are constraining the freedom of investors. The authors clarify that SEBI's approach is an example of a careful consideration of a balance between investor protection, systemic stability, and market efficiency, therefore demonstrating transparency as more than simply a requirement of law, but rather a regulatory tool for promoting protection in India's public capital market(s). By delineating SEBI's function considering the broader discussion of securities regulation and corporate governance, this study demonstrates the progressive nature of regulation and the emergent nature of regulatory transparency, in this globalized economy.

**Keywords:** SEBI, secondary markets, transparency, investor protection, corporate governance, securities regulation.

## 1. INTRODUCTION

The foundation of any successful secondary market is transparency. Investors experience severe information asymmetries in the absence of timely, accurate, and meaningful disclosure, which erodes their trust in trading systems and lowers market efficiency. The Securities and Exchange Board of India (SEBI) has become a key regulatory body in India that strategically uses transparency as a means of fostering trust in addition to enforcing the law. In order to promote investor protection and market credibility, SEBI's regulatory stance has changed over time from that of a rule-maker to a strategic actor. It now shapes the very architecture of disclosure, governance, and enforcement in addition to establishing norms.

The role of SEBI in fostering transparency in India's secondary markets is examined in this paper. It examines the institutional structure of market discipline and enforcement as well as the legal framework, including listing requirements, insider trading laws, and statutory mandates. The paper makes the case based on regulatory reports, scholarly research, and empirical studies that although SEBI has greatly increased trust through these mechanisms, issues like compliance fatigue, arbitrage, enforcement bottlenecks, and concerns about over-regulation still exist. SEBI's strategy shows how transparency can be a strategic tool to strike a balance between investor protection, systemic stability, and market efficiency rather than just a legal necessity.

## 2. STATUTORY AND INSTITUTIONAL FOUNDATIONS: SEBI'S MANDATE FOR TRANSPARENCY

### 2.1. Statutory Mandate under SEBI Act, 1992

The Securities and Exchange Board of India Act, 1992, which lays out SEBI's goals and instruments, is the foundation of its authority and mission. Under Section 11, SEBI is empowered “to protect the interests of investors in securities and to promote the development of, and to regulate, the securities market.”<sup>1</sup> This expansive mandate allows SEBI to create regulations that promote market expansion and investor protection.<sup>2</sup>

Furthermore, a particularly powerful tool is Section 11B of the Act, which gives SEBI the authority to impound funds, attach assets, issue binding directives, or restrict trading in the

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<sup>1</sup> Securities and Exchange Board of India Act, No. 15 of 1992, §§ 11–11B (India).

<sup>2</sup> Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended May 1, 2025) (India).

interest of investors or for the orderly growth of the securities market after an investigation.<sup>3</sup> The ability of SEBI to impose discipline and transparency in the secondary market is supported by this legislative authority.

These legal authorities confirm that transparency is essential to SEBI's mission and is not merely incidental. The regulator has the express authority to look into unfair practices by intermediaries or other market participants, seize proceeds, and punish them—all actions that strengthen confidence.<sup>4</sup>

## 2.2. Institutional Role & Surveillance

SEBI maintains a strong surveillance and enforcement framework in order to convert its statutory mandate into market trust. In order to ensure compliance with its regulations, SEBI inspects intermediaries (brokers, merchant bankers, registrars, and depositories) both on-site and off-site, according to its own disclosures.<sup>5</sup> These inspections act as a mechanism for enforcing transparent behaviour, making sure market participants follow disclosure and governance obligations, in addition to acting as a check on technical compliance.

In the past, SEBI has maintained an active and significant market surveillance system. For example, an early annual report describes how intermediaries, such as stock brokers and merchant bankers, were subject to suspensions, warnings, and other punitive measures following Section 11B investigations.<sup>6</sup> Such enforcement strengthens SEBI's credibility as a regulator by discouraging malpractice and demonstrating to the market that it takes transparency seriously.

## 2.3. Investor Education, Complaints, and Redress

SEBI understands that investor empowerment is just as important to market trust as formal regulations and enforcement. Its policies include investor education campaigns, online response systems, and grievance redressal mechanisms.<sup>7</sup> SEBI enhances transparency not only as a legal requirement but also as a social and strategic objective by lowering information

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<sup>3</sup> Securities and Exchange Board of India, Annual Report 2014–2015 (2015) (India).

<sup>4</sup> Goutham Ratna & Jyotirmoy Banerjee, The Role of SEBI in Promoting Transparency and Controlling Insider Trading, 8 Indian J. L. & Mgmt. Stud. 174 (2025).

<sup>5</sup> K. S. Sai Laja, SEBI's Role in Protecting Investor Interests: An Evaluation, Indian J. Res. & Analytical Rev. 657 (2017).

<sup>6</sup> S. T. Naidu, A Study on Role of SEBI in Investor Protection (2024), ResearchGate.

<sup>7</sup> D. Raval, Improving the Legal Process in Enforcement at SEBI, IGIDR Working Paper No. 2011-008 (2011).

barriers and empowering retail investors to more confidently navigate the market ecosystem.

### **3. LEGAL FRAMEWORKS FOR DISCLOSURE AND GOVERNANCE: EMBEDDING TRANSPARENCY**

Transparency in secondary markets depends critically on what companies and insiders are required to disclose, how, and when. To make sure that market players follow open standards, SEBI has implemented a variety of regulatory tools, chiefly the Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015 and its insider-trading regime.

#### **3.1. The LODR Regime: Continuous Disclosure & Governance**

SEBI's Listing Obligations and Disclosure Requirements Regulations, 2015 (LODR) is the central regulatory instrument governing how listed companies disclose information to investors.<sup>8</sup> In order to increase transparency, the LODR Regulations impose a wide range of obligations, including periodic reporting, event-based disclosures, corporate governance requirements, and website disclosures.

Under LODR, listed entities must disclose material events (Regulation 30), financial results, board composition, risk management policies, related-party transactions, and more.<sup>9</sup> By guaranteeing that investors have timely access to decisions and events that could impact the share price or the firm's trajectory, these requirements aid in the reduction of information asymmetry. Additionally, companies must have independent directors, audit committees, risk committees, and other structures that guarantee board oversight in order to comply with LODR's governance requirements. These governance responsibilities promote transparency both internally (through strong internal controls) and externally (through disclosure).

An important transparency mechanism under LODR is the website disclosure requirement. Listed companies are required to maintain a functional website that provides investors with information such as business activity, board policies, whistle-blower mechanism, related-party policies, and more.<sup>10</sup> Transparency in an accessible, digital format is institutionalized by this requirement.

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<sup>8</sup> SEBI's Enforcement Powers and Mechanisms, Indian J. L. & Legal Res. (2025).

<sup>9</sup> G. P. Godhawari, A Study on SEBI Regulations and Their Impact on Stock Market Transparency in India, Indian J. Legal Rev. (2025).

<sup>10</sup> Recent Amendments to SEBI (LODR) Regulations for Disclosures on Rumours, SCC Times (2024).

LODR has also evolved with the times. SEBI has periodically amended these regulations to expand their scope. For instance, consultation papers and amendments have addressed rumour disclosures, enhancing how companies report unverified or market-moving speculation.<sup>11</sup> These dynamic updates reflect SEBI's strategic use of regulation to tighten trust through transparency.

In the landmark case of Hindustan Lever Ltd v SEBI, SEBI found that Hindustan Lever Ltd (HLL) had traded in Brooke Bond Lipton India Ltd (BBLIL) shares on the basis of unpublished price-sensitive information (UPSI), prior to a merger announcement. SEBI held that HLL was an insider under the SEBI (Insider Trading) Regulations, 1992, and ordered compensation of ₹3.04 crores to UTI as the purchase was made before public announcement. This case exemplifies SEBI's early commitment to upholding insider trading standards. By punishing insider misuse, SEBI sends a clear message that price-sensitive information must be transparent and that infractions will be dealt with, fostering market confidence.

### 3.2. Insider Trading Regulations

Insider trading, or the improper use of unpublished price-sensitive information (UPSI) by insiders for their own benefit, poses a serious threat to market confidence. The Prohibition of Insider Trading Regulations, which were first drafted in 1992 and significantly updated in 2015, are one way that SEBI has addressed this.<sup>12</sup>

In addition to defining UPSI and codifying insider roles, the 2015 Regulations require listed companies to create a Code of Conduct, appoint a compliance officer, and keep a Structured Digital Database (SDD) detailing who received UPSI, when, and why.<sup>13</sup> Because all sharing of sensitive information must be documented, insiders can no longer claim plausible deniability. These provisions institutionalize traceability and accountability.

Additionally, the regulations mandate public reporting of trades exceeding specific thresholds, as well as initial and continuing disclosures by directors, promoters, and key management personnel. By making insiders' trading activity visible to the market, this promotes justice and deters abuse. SEBI has implemented a whistle-blower system that enables informants to

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<sup>11</sup> Insider Trading Regulations and Enforcement in India, Legal Serv. India.

<sup>12</sup> SEBI's Powers of Investigation and Enforcement, I-Leaders (2024).

<sup>13</sup> Section 11 of the SEBI Act: An Overview of Functions, Legal Sch.

discreetly report insider trading infractions and offers incentives for successful enforcement.<sup>14</sup> This method not only aids in detection but also communicates that SEBI respects and safeguards corporate transparency. Implementation is not without difficulties, though. Insider trades in mutual fund units (rather than just shares) required explicit incorporation, according to critics of the PIT Regulations. SEBI filled this gap in its 2022 amendment by extending insider-trading norms to mutual fund units.

## **4. SEBI'S ENFORCEMENT STRATEGY: FROM RULES TO ACCOUNTABILITY**

Rule-making only builds trust when backed by credible enforcement. In order to guarantee that transparency is a lived reality in the market rather than merely a formality, SEBI's enforcement architecture which is based on its legal powers, investigative capabilities, and adjudication mechanisms is essential.

### **4.1. Powers of Inquiry and Direction (Section 11B)**

The SEBI Act's Section 11B is essential to its enforcement. In order to safeguard investors or preserve orderly markets, SEBI may, following an investigation, give orders to any intermediary or other market participant, prohibit them from trading, attach accounts, or impound securities. The disgorgement power, which requires wrongdoers to return illegal gains, is particularly important because it eliminates the financial incentive for unfair or opaque transactions. SEBI has frequently used Section 11/11B directives, adjudication procedures, and even prosecutions, demonstrating that these are not idle powers. Over time, these measures strengthen SEBI's reputation as a regulator dedicated to deterrence and openness. The existence of such powers serves as a structural deterrent, even though delays and resource limitations may impede some investigations.

### **4.2. Adjudication & Prosecution**

SEBI does not just rely on alerts. It uses adjudication officers to impose penalties for breaking its rules, such as insider trading, fraudulent trading, and non-disclosure under LODR. SEBI has the authority to prosecute criminals in court in extreme circumstances. It is because investors are aware that infractions may result in severe legal repercussions, these multi-tier enforcement methods foster greater trust. However, procedural justice, promptness, and

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<sup>14</sup> Website Disclosures as per Companies Act and SEBI LODR, ARACS.

investigative ability are critical to these mechanisms' efficacy. Some scholars have noted challenges in SEBI's enforcement, including backlogs, appeals, and resource constraints. These restrictions run the risk of causing people to believe that there are transparency laws but that they are not strictly enforced.

### **4.3. Surveillance Systems & Technology**

SEBI uses proactive market surveillance to prevent infractions. Suspicious trades, trading patterns, and anomalies that might point to insider activity or market manipulation are identified by its monitoring systems. SEBI's strategic use of technology to enforce transparency is highlighted by the integration of advanced analytics, off-site inspections, and real-time data analysis. Additionally, SEBI's surveillance reach is strengthened by its collaboration with stock exchanges and self-regulatory organizations (SROs). Regular audits and on-site and off-site inspections ensure that transparency is integrated into the system's daily monitoring rather than being limited to ex post (after violation).

## **5. STRATEGIC ROLE OF TRANSPARENCY: BUILDING MARKET TRUST**

Beyond legislation and penalties, SEBI's pursuit of transparency must be viewed strategically as a tool to establish and maintain trust rather than merely a compliance checklist.

### **5.1. Regulator as Strategic Actor**

SEBI now plays a more complex role in creating the architecture of trust rather than just prescriptive regulation, which dictates what information businesses must disclose. By enforcing insider-trading regulations, structuring board governance, and requiring continuous disclosure, SEBI is fostering market discipline rather than just enforcing transparency.

This change reflects an awareness that transparency needs to be institutional and credible. Enforcement is more important if it is perceived as equitable and consistent; rules are less important if they are disregarded. SEBI's approach, which combines regulation, enforcement, technology, and education, demonstrates that it sees transparency as a tool rather than a burden.

### **5.2. Restoring Confidence after Crises**

Following market crises, scandals, or instances of manipulation, SEBI has frequently increased its emphasis on transparency. Trust rapidly erodes during such times: both institutional and

retail investors may become uneasy due to insider trading accusations, opaque listings, or governance shortcomings. Rebuilding trust is aided by SEBI's post-crisis reforms, which include enhanced surveillance, tighter LODR requirements, and disclosure standards.

For example, changes made to LODR in reaction to "rumour disclosures" or market speculation demonstrate how SEBI employs regulatory feedback loops to handle changing trust risks. A flexible approach to managing transparency risks is demonstrated by the simple act of requesting public input or revising regulations in response to complaints from whistle-blowers.

### **5.3. Comparative Perspective**

The SEBI model provides valuable insights in a global setting. In contrast to regulators such as the U.S. SEC, which primarily rely on litigation and civil penalties, SEBI integrates market-level governance norms, real-time surveillance, and administrative direction (Section 11B). In emerging markets, where institutional capacities are still developing and trust deficits may be more severe, this hybrid approach might be especially successful.

According to some scholarly analyses, SEBI's integrated strategy—rules, enforcement, governance, and surveillance—might be more adept at resolving informational asymmetry and constructing market infrastructure in a developing capital market. This implies that transparency can be an effective instrument for fostering trust when it is incorporated into institutional design.

## **6. CHALLENGES, TRADE-OFFS, AND UNRESOLVED ISSUES**

Although SEBI's transparency strategy has made great progress, there are still issues. Trust via transparency is always a work in progress, according to a number of structural and practical issues.

### **6.1. Compliance Fatigue & Cost**

Listed companies, particularly smaller ones, face a significant compliance burden due to the scope of LODR obligations, continuous disclosure requirements, and governance norms. Regular reporting, upkeep of website disclosures, board governance structures, and codes of conduct all require managerial and financial resources. Companies may eventually suffer from compliance fatigue, which lowers the calibre or sincerity of their disclosures.

This begs the question of what constitutes a material disclosure. A flood of disclosures could overwhelm investors and dilute meaningful transparency if SEBI sets the bar too low. Setting it too high, on the other hand, could lead to under-disclosure.

## **6.2. Regulatory Arbitrage**

Businesses may take advantage of arbitrage opportunities to avoid being transparent. To reduce their LODR obligations, they might, for example, use unlisted instruments, offshore structures, or unregulated vehicles. New financial instruments, cross-border investments, and emerging asset classes present a problem: SEBI's disclosure policy might not keep up with the rate of financial innovation.

Furthermore, information may be selectively shared with preferred investors or leak through other channels despite strict insider-trading regulations, especially in opaque or loosely regulated sectors. Anticipating and closing such gaps without impeding innovation is SEBI's challenge.

## **6.3. Enforcement Constraints**

Despite SEBI's statutory teeth, enforcement is not always prompt or thorough. Long, resource-intensive investigations may face legal challenges. Backlogs in adjudication, appeals, or lower capacity for full prosecutions may weaken the deterrent effect.

Perceived fairness is another factor that affects trust in enforcement. Transparency reforms may sound hollow to investors who think that prosecution is arbitrary or that powerful insiders can avoid guidance or disgorgement.

## **6.4. Risk of Over-Regulation**

Market dynamism can occasionally be stifled by a more stringent regulatory framework. Companies may postpone listing, withdraw from public markets, or restrict expansion if they feel overburdened by disclosure requirements. Furthermore, excessive transparency can paradoxically stifle innovation: if every tactic must be publicly justified, businesses may be less inclined to take risks.

Additionally, there's a chance that excessive regulation will limit investor autonomy. Retail investors might prefer to trust management and concentrate on the fundamentals rather than

detailed disclosures about every internal code or board decision.

### 6.5. Trust in the Regulator Itself

Transparency is important for regulators as well as market players. Paradoxically, SEBI itself has experienced issues with governance and trust, especially with regard to conflicts of interest at the leadership level.<sup>15</sup> For instance, recent proposals have called for senior officials and the chair of SEBI to be required to disclose their assets and potential conflicts of interest. Critics contend that SEBI's legitimacy could be compromised in the absence of internal transparency.

## 7. CONCLUSION

Building trust in India's quickly changing capital markets has been greatly aided by SEBI's strategic use of transparency. SEBI has integrated transparency into the secondary markets through its enforcement architecture, insider-trading regulations, comprehensive LODR regime, and statutory powers (Sections 11, 11B). In addition to strengthening investor protection, this has improved systemic credibility, decreased asymmetric information, and promoted market discipline.

However, transparency is not a cure-all. Ongoing issues include the need for the regulator to be transparent, potential overreach, enforcement gaps, and compliance burdens. In addition to enforcing regulations, SEBI's credibility as a strategic regulator will depend on its ability to continuously improve them, develop capacity, and uphold internal accountability.

Ultimately, SEBI's experience teaches emerging-market regulators a valuable lesson: transparency becomes more than just a requirement for compliance when it is integrated into institutional architecture, legal design, and regulatory strategy. Instead, it becomes a tool for establishing trust, maintaining markets, and promoting growth. SEBI's model could be used as a model and a warning study for how to strike a balance between regulation, innovation, and trust in the twenty-first century as Indian markets develop and become more globalized.

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<sup>15</sup> Comptroller and Auditor General of India, 'Report No. 21 of 2021 on Management of Conflicts of Interest in Regulatory Bodies', Chapter 4