

INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS



Open Access, Refereed Journal Multi-Disciplinary
Peer Reviewed

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USE OF PURPOSIVE CONSTRUCTION IN THE REGULATORY DECISIONS OF SEBI

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ABSTRACT

In the Indian statute law, Purposive construction doctrine has acquired great significance in the interpretation of statutes, especially in regulatory administration, where rigid and strict adherence to textual interpretation might not be asserted as the intent of legislation. With reference to securities law, the Securities and Exchange Board of India (SEBI) has been vested with wide or broad powers under the SEBI Act of 1992 to protect investors, ensure market integrity, and regulate trading practices. The unclear terminology in SEBI's mandate requires judicial interpretation at times going beyond textual constraints.

Indian courts have very much progressively endorsed purposive construction or interpretation in SEBI's framework over the past two decades, moving from a very literalist restraint to more dynamic interpretations that more so prioritize the investors and their protection. Landmark rulings, including Clariant International, the Sahara case, N. Narayanan, and Kaniyalal Patel, demonstrate how purposive interpretation readings have expanded SEBI's minimal regulatory jurisdiction, closed the regulatory loopholes, and also adapted the law to realities. At the same time, the interpretation also warns us of the abuse of power by the judiciary, being regulatory overreach and uncertainty for businesses when such an interpretation is applied too expansively.

The article criticizes these developments through the reference to SEBI's jurisprudence in administrative law and pointing to the very difficulty of finding a balance between intentional flexibility and predictability and rule of law.

Keywords: Purposive construction, SEBI Act, 1992, Statutory Interpretation, Securities regulation, protection of investor, administrative law.

INTRODUCTION

How should legal provisions be interpreted in which linguistic expression is unclear, especially where the consequences affect safeguarding a large number of investors and the preservation of market integrity? Can it effectively regulate if a regulatory authority is surrounded by the literally understood textual interpretation, especially in one of these areas as a trading of securities that is defined by its fluidity? These issues form the core of this article, which examines and tries to explain how intentional interpretation was applied to this regulatory landscape defined by the Board of Securities of India (SEBI).

SEBI was created for its regulatory role with an incredibly broad statutory mission: to protect investors, guarantee justice and regulate the securities market. However, the vocabulary of their regulations, where we have such as 'fraudulent', 'unfair' or 'interest of investors' are employed, intentionally or deliberately, broad. Such terms used by the legislator are evidence of the inability to predict all types of manipulation or abuse in a constantly changing financial market. This requires the central question of our article: Should these terms be subject to restricted or literal interpretation or should it be seen more liberally to serve the latent objective of legislation and the intention of the legislators that promised it so?

The intention here is to discuss the evolution of purposive construction amidst circumstances created by SEBI and carry out a critical examination of how it aims to balance statutory rigidity with marketplace dynamism. From particular interest, here are questions regarding SEBI's theoretical comprehension of purposive construction as well as how it is practiced. Also examined is whether the judiciary has utilized purposive interpretation in SEBI powers and regulatory matters. On the other hand, it also discusses potential risks associated with purposive interpretation, i.e., doubts regarding issues surrounding uncertainty, over-reaching by the regulator, and equilibrium between powers by both legislature and judiciary and that of regulatory. The discussion alludes to these questions in the broader perspective of administrative law, for SEBI operates not only as a regulatory authority but also as an administrative agency exercising its quasi-legislative, executive, and judicial powers.

With special stress on purposive construction, the paper endeavors to highlight its possible and uncertainties so that regulators can respond nimbly to rising issues while at the same time examining boundaries between predictability and conformity to the rule of law.

This article seeks to ideally complement existing debates regarding how regulatory laws are

interpreted. The intention is to talk about and investigate whether purposive interpretation by SEBI's law has achieved an appropriate balance between flexibility and certainty and if it promotes legislative intent.

DEFINITION OF THE CONCEPT

Purposive construction is a method of legal and statutory interpretation that aligns with the legislator's intent, even if it deviates from the literal meaning of the law. Instead of adhering strictly to the exact wording stated, the law is instead interpreted to best align with the legislator's intent, and to reach the object of the Act.

“It is necessary to give effect to the purpose and object of the Act.¹ The statute must be read in its entirety, and the purport and object of the act must be given effect by applying principles of purposive construction.² A purposive construction promoting the object of the enactment but not extending its sweep beyond the frontiers within which it was intended to operate must be adopted, keeping in view that a construction which exempts a person from its operation must be preferred to the one which includes him in it, in view of the penal nature of the statute. Purposive Construction must be applied to provisions to ensure that the true intent of the statute is carried on.³ Where literal construction or plain meaning may cause hardship, futility, absurdity, or uncertainty, the purposive or contextual construction may be preferred to arrive at a more just, reasonable, and sensible result.⁴ It is the Duty of the courts to accept a construction which promotes the object of the legislation, and also prevents its possible abuse, even though the mere possibility of abuse of a provision does not affect the constitutionality or construction. Abuse has to be checked by constant vigilance and monitoring of individual cases, and this can be done by screening of the cases by suitable machinery at a high level⁵” as written under Interpretation of statutes by Dr. Avtar Singh and Dr. Harpreet Kaur.

In given circumstances, it is permissible for courts to have a functional approach and look into the legislative intent and sometimes it may be even necessary to go behind the words of an enactment and take other factors into consideration to give effect to the legislative intention and to the purpose and spirit of the enactment so that no absurdity or practical inconvenience

¹ Indian Handicrafts Emporium v. Union of India (2003) 7 SCC 589.

² Deeplal Girishbhai Soni V. United India Insurance Co. Ltd. (2004) 5 SCC 385.

³ Atul Castings Ltd. Bawa Gurvachan Singh (2001) 5 SCC 133.

⁴ D Sahiba v. Bar Council of India (2003) 6 SCC 186.

⁵ Sanjay Dutt through CBI, Bombay (II) (1994) 5 SCC 410.

may result and the legislative exercise and its scope and object may not become futile.⁶

In the light of interpreting statutes such as the Securities and Exchange Board of India Act (herein after referred to as the SEBI Act)⁷, Purposive Construction means interpreting its regulations not by rigidly holding on to the literal wording, but by reading them in a way that broadens and deepens the meaning and legislative intent behind such regulations imposed on traders.

Even the SEBI Act⁸ itself has open-ended and general terms of reference. Section 11⁹ allows SEBI to make rulings "as it thinks fit" to enforce investor interests and regulate markets. Because such terms are deliberately general, rules made under them tend to be written in generic terms such as 'fraudulent', 'unfair', 'misleading', or 'in the investors' interests.' A purely literal interpretation of such terms would create lacunae, for customs in the markets are changing fast and fresh schemes would probably elude fine definitions by spelling out fine print.

Purposive construction enables SEBI to comprehend and decipher rules by looking at their intent instead of word meaning. For example, rules on insider trading regulate actions that pose risks to fairness in the market even though they are not mentioned. Purposive construction also enables SEBI to deal with financial innovations such as new instruments or online platforms that rules might not have foreseen. This ensures manipulative practices cannot escape accountability simply due to gaps in the wording or technicalities. At the same time, SEBI balances flexibility with certainty, interpreting rules to protect investors while giving businesses clarity on law conduct.

The Supreme Court stated that it is obligatory on courts to discern the legislative object and to adopt a purposive construction where the language of the statute admits more than one meaning. The Court held: "a statute has to be construed according to the intent that made it, it is always the duty of the Court to act upon the true intention of the legislature."¹⁰

⁶ Directorate of Enforcement v. Deepak Mahajan (1994) 3 SCC 440.

⁷ Securities and Exchange Board of India Act, 1992 (Act No.15 of 1992).

⁸ *Id.*

⁹ Securities and Exchange Board of India Act, 1992 §11 (Act No.15 of 1992).

¹⁰ Securities and Exchange Board of India v. National Stock Exchange Members Association and Another (2022) 4 SCC 524.

In the SEBI regulatory space, purposive construction transforms broad and open-ended statutory powers into living tools of regulation, as the intent of the legislators. It ensures that the regulator's mandate to protect investors and maintain market integrity remains effective, even when it's challenged by the evolving complexity of the securities market.

LITERATURE REVIEW

INTERPRETATION OF STATUTES

Dr. Avtar Singh and Harpreet Kaur

The book 'Introduction to the Interpretation of Statutes'¹¹, written by Dr. Avtar Singh and Dr. Harpreet Kaur, is an academic resource that studies the core principles and rules that the courts use to determine the meaning of laws. It breaks down the and presents the statutory interpretation, which is given as a rigid science, into an art of ascertaining the legislative intent through various 'canons of interpretation.'

It is designed such that it offers a highly comprehensive view of the topic it covers:

1. **Fundamental principles:** It deals with fundamental principles and clarifies how they are to be applied and in what type of situations, in order to clear ambiguities. They stress upon the point that the fundamental and foremost rule is to attach effect to the plain meaning of words of the statute as provided by it, and not other rules if ambiguity exists.
2. **Aids to Construction:** It separates and defines both internal and external aids to statutory construction.
3. **Rules and Presumptions:** The book presents specific rules and analyzes presumptions regarding constitutionality, retrospective effect, and laws that will apply to the state or to the nation (also referred to as the crown)

Authors have included various Indian and English case laws to demonstrate such principles employed in practice. The book makes it clear how such interpretations would assist in a specialization like SEBI Act, which is a regulatory operating body.

IRIDIUM INDIA TELECOM LTD. V. MOTOROLA INCORPORATED & ORS (Case Study)

Mihir Naniwadekar and V. Umakanth

This Case study analyzes the Indian Supreme Court's landmark judgment in Iridium India Telecom Ltd. v. Motorola Inc.¹², which clearly clarified the criminal liability of corporations

¹¹ Dr. Avtar Singh And Dr Harpreet Kaur, Introduction To The Interpretation Of Statutes (Wadhwa, Nagpur, 3rd Edn., 2012).

¹² (2011) 1 SCC 74.

in India. The Case study examines two key features:

1. Corporate Mens Rea: The case definitively established that a corporation is capable of possessing mens rea (criminal intent). This overruled the earlier, more simplistic reasoning of some courts that a company, being a legal rather than a natural person, could not have a 'guilty mind', illustrating how courts have adapted purposive construction.
2. Principles of Attribution: The Supreme Court adopted the rigid 'directing mind and will' test, derived from the English case *Tesco Supermarkets Ltd. v. Nattrass*¹³, to attribute the mens rea of individuals to the corporation.

The Iridium case is a power illustration of purposive construction, especially in the context of SEBI's role as a market regulator. This case demonstrates that the courts are willing to look beyond just the literal interpretation of the law in order to achieve its intended purpose, particularly in matters of corporate malfeasance and investor protection.

BAND-AID INTERPRETATION: HEYDON'S RULE

Yashas Malik

The Article 'Band-Aid Interpretation: Heydon's rule'¹⁴ examines the 'Mischief rule', also known as the Heydon Rule, as a crucial principle of statutory interpretation. The Author uses the reference of a band-aid, as the rule to apply as a band-aid to a wound, with the wound representing a mischief or a defect in the prior law that is intended to be corrected.

The article outlines the four key issues a court must consider when applying the rule:

1. What was the common law before the Act?
2. What was the mischief or defect that the common law failed to address?
3. What remedy did the new Act provide to cure this defect?
4. What was the true reason for the remedy?

Heydon's Rule and purposive interpretation are closely linked principles of statutory interpretation that are essential for understanding SEBI's regulatory framework, by curing the mischief of unregulated markets.

¹³ 2 WLR 1166.

¹⁴ Yashas Malik, 'Band-Aid Interpretation: Heydon's rule' 25 Hein Online.

GROWTH OF SEBI AS A REGULATOR OF THE INDIAN CAPITAL MARKET

Ipsita Das, Dr. Prof Pradip Kumar Sarkar, Pratiti Nayak, and Dr. Kyvalya Garikapati

This Article, 'Growth of SEBI as a Regulator of the Indian Capital Market'¹⁵, provides a historical and analytical framework and overview of the Securities and Exchange Board of India (SEBI) and its role in the Indian capital market. The authors trace the evolution of India's financial markets from the 1830s to the establishment of SEBI as a power statutory body.

The article mentions how SEBI has amended its regulations to include new financial products like derivatives and has continually updated its surveillance systems (like the Integrated Market Surveillance System) to tackle the growing complexity of the financial market. These actions are not just arbitrary rules but are purpose measures to ensure the market remains fair, transparent, and protected from new forms of fraud, which is the very essence of purposive construction.

ANALYZING THE DEVELOPMENTS

The Securities and Exchange Board of India (SEBI) occupies a unique position in Indian administrative law. Unlike ordinary regulators, whose mandates are narrowly drafted, SEBI was created with a very broad statutory purpose: to protect investors, ensure the orderly functioning of these securities markets, and also prevent practices that are detrimental to public confidence. SEBI Act, 1992¹⁶, has an expansive language¹⁷, and the very frequent use of open-ended expressions such as 'fraudulent', 'unfair', 'misleading', or 'public interest', creates interpretive challenges. The judiciary has responded to this ambiguity by adopting purposive construction, interpreting SEBI's powers and regulations in light of their underlying objectives rather than through strict literalism.

This section critically examines the development of purposive construction in the SEBI framework, tracing its trajectory from early reluctance to actual expansive application, evaluating its benefits and potential drawbacks, and assessing the implications for India's market governance¹⁸.

¹⁵ Ipsita Das, Dr. Prof Pradip Kumar Sarkar, *et. al.*, 'Growth of SEBI as a Regulator of the Indian Capital Market' 38 PalArch s Journal of Archaeology of Egypt / Egyptology, December 2020.

¹⁶ *Supra* Note 7.

¹⁷ Umakanth Varottil, "The Evolution of SEBI as a Regulator: A Purpose-Oriented Approach" 55 Journal of Indian Law Institute 112 (2013).

¹⁸ K.P. Varghese v. ITO, (1981) 4 SCC 173.

In SEBI's early years, courts applied more of a literalist approach, focusing on strict proof of contravention and being reluctant to expand SEBI's reach by mere implication. For example, in early insider trading jurisprudence, courts required evidence of direct communication of UPSI, treating the regulations narrowly. The SC quashed SEBI's insider trading finding because the company's actions were not covered literally, showing judicial reluctance to stretch definitions. SEBI's ability to curb such sophisticated schemes was limited, but it preserved predictability¹⁹.

A doctrinal shift emerged in *Clariant International Ltd. v. SEBI*²⁰, where the issue concerned whether minority shareholders must be protected in a takeover, even though the actual given, and literal takeover regulations were ambiguous. The Supreme Court held that the SEBI's regulations had to be construed purposively to safeguard all the small investors. It emphasized that takeover provisions were designed to ensure fairness, and a narrow technical reading would very much defeat the aim²¹.

While the *Clariant*²² case applied purposive reasoning within takeover law, the *Sahara India Real Estate Corporation Ltd. & Ors. v. SEBI*²³ case brought purposive interpretation to the forefront of public issue/public subscription jurisprudence. In that case, *Sahara*²⁴ had attempted to label its issuance of Optionally Fully Convertible Debentures (OFCDs) as private placements, despite distributing them to millions of people. The literal text under the Companies Act might have allowed escape via technical exemptions, but the Supreme Court refused to permit that outcome, holding that such a reading would defeat the legislative purpose of investor protection²⁵.

The court did not accept *Sahara's* contention²⁶ that it lacked the intent to make a public offer. Instead, they looked at the substance of the action: distribution to the 'public' through information memoranda and a network of agents. The judgment held that raising money from a large number of persons cannot be disguised as a private offering, lest regulatory protection

¹⁹ *Rakesh Agrawal v. SEBI*, (2004) 11 SCC 367.

²⁰ AIR 2004 SC 4236.

²¹ *Supra* note 17.

²² *Supra* Note 21.

²³ (2013) 1 SCC 1.

²⁴ *Id.*

²⁵ *Sahara v. SEBI: An In-depth Analysis of the Landmark Supreme Court Ruling*, Mondaq.

²⁶ *Supra* Note 24.

be defeated.

This particular judgment significantly expanded SEBI's regulatory reach by not amending the law, but more so by interpreting existing law purposively to prevent misuse of such loopholes²⁷. The effect was to stop the entities from structuring around the literal wording of the statute to avoid SEBI oversight. The Sahara case²⁸ consolidated purposive construction as a judicial tool to preserve regulatory efficacy, not merely an interpretive option.

Post the Sahara case²⁹, the judiciary continued to apply purposive construction or interpretation across various SEBI domains, including fraud, insider trading, market manipulation, algorithmic trading, and unfair trade practices. In such cases, courts and tribunals have emphasized and highlighted that broad terms like 'fraudulent act' or 'unfair trade practice' must be understood in light of regulatory objectives, not just confined to the technicality of the words³⁰.

For instance, in cases where market abuse is affected through financial instruments or trading strategies not explicitly anticipated, courts have understood and accepted that purposive reading allows SEBI to act against such conduct, even in the absence of precise textual backing. This prevented regulatory gaps in evolving such market landscapes³¹.

At present, purposive interpretation is often the default mode when interpreting SEBI's regulations and further adjudicating appeals. SEBI itself, in its own orders, increasingly justifies its reasoning by reference to legislative purpose, and courts are very much more willing to uphold such reasoning.

The change is necessary, as security markets evolve rapidly, generating new trading methods, new digital platforms, fintech solutions, and cross-border transactions. Strictly literal interpretation would leave regulators behind. By purposely crafting the rules, SEBI's rules remain a use tool without having to issue new legislation. This method is now a fundamental

²⁷ Sandeep Parekh, *Fraud, Manipulation and Insider Trading in the Indian Securities Market* (LexisNexis, Gurgaon, 2016).

²⁸ *Supra* Note 24.

²⁹ *Id.*

³⁰ *N. Narayanan v. SEBI*, (2013) 12 SCC 152.

³¹ *SEBI v. Kanaiyalal Baldevbhai Patel*, (2017) 15 SCC 1.

way in which courts understand securities law, such that if a literal construction is found to be absurd or to have a negative impact on investors, the court will instead turn to a purposive interpretation of the statute.³²

Critical Evaluation:

Purpose construction in SEBI's regulatory form has significant power and significant risks. On the positive side, purpose construction plays a very crucial role in determining the legal gaps and opening and shutting down, ensuring that organizations cannot escape these regulatory consequences through intelligent structures or technical reasons, thus giving the object's priority form. It also ensures that investors allow the constitutional and legal order of the defense SEBI to act even under unexpected circumstances in which the literal interpretation usually falls short or is left open to interpret by legislators. In addition, deliberately construction provides relief and adaptability to a continuous growing market environment, allowing the law to follow future speed and update financial innovation and speed of new business methods. It is important to emphasize that the deliberate interpretation of the SEBI power is strengthened by the judicial support of the interpretation, disappointing the 1 challenges for technical or formal pavement reasons.

At the same time, the deliberate construction does not fail its risks. There is a real risk of regulatory overtaking, where SEBI's powers can be extended in areas where Parliament is never intended, especially if the courts show high respect or respect for the regulator's extensive reading. This elasticity can create uncertainty for market participants, as widespread interpreted companies make it difficult to expect compliance responsibilities, predictions and justice. In addition, changeness in judicial approaches means that various judges or banks can interpret the purpose of the law or the purpose of legislators differently, leading to inconsistent consequences in similar cases. Finally, excessive dependence on construction, further disturbing democratic balance, changes or changes in the law of legislators and regulators and courts, distinguishes, separating powers.

The future course demands a care approach: purposive construction must be paired with the guiding principles or the limits to prevent arbitrary expansion. One way forward is for SEBI to issue interpretative circulars or guidelines, clarifying how it construes broad terms like

³² SAT decision on Section 15L composition of benches, reported in *White & Brief Law Review*, 2023 (“Neutralising Quasi-Judicial Vacuum with a Purposive Approach”).

'fraudulent', 'unfair trade practices', or 'public interest'. This gives businesses advance notice of SEBI's stance, arriving at judicial purposive readings within transparent criteria³³.

Appellate scrutiny (SAT / Supreme Court) is remedial, ensuring that purposive interpretations do not wander beyond legislative intent. Precedent-based constraints, stare decisis, and reasoned judgments can help maintain balance. Additionally, the transparent argument in SEBI's orders and decisions shows very clearly how objectives are applied to specific facts, perfectly reduced unpredictable, and therefore can build validity.

Concluding, purposive interpretation is a huge twist in the field of development structure of regulatory officers such as SEBI, to maintain the integrity of the market from the rigor of the lesson to the safety of investors and to maintain the integrity of the markets. The Landmark's decision, including the people mentioned above, such as Clariant International³⁴, Sahara³⁵, Narayanan³⁶ and Kanayalal Patel³⁷, has shown that the purposive reading has helped SEBI to remove the flaws in its interpretation and made it very suitable according to newly developed market practices. The course indicates, therefore, that purposive construction is an indispensable way in paving the way for the regulation of effective securities but falls on the validity of governance that it is completed through a balance between flexibility and certainty.

CONCLUSION

Changes in the rules of judicial interpretation on the interpretation of securities and securities in India were considered by the courts. The SEBI was established as a primary regulator with immense powers to protect investors and ensure market integrity. But their laws and regulations cannot keep up with new ideas and new schemes in today's financial markets. The purposive construction is a method of building the gap between the old text and the new reality and is now necessary in the interpretation of the laws. The courts played an important role in this transformation.

Initial cases, such as Rakesh Agrawal, were decided in the direction of the letter of law, in

³³ SEBI's practice of issuing interpretive circulars under LODR Regulations (e.g., SEBI Circular CIR/CFD/CMD1/27/2019).

³⁴ *Supra* Note 21.

³⁵ *Supra* Note 24.

³⁶ *Supra* Note 31.

³⁷ *Supra* Note 38.

favor of certainty and predictability. In later years, the courts realized that an approach to the whole text was over investors and allowed individuals to explore breaches. Cases of reference such as Clariarant International³⁸, Sahara³⁹, N. Narayanan⁴⁰ and Kanaiyyalal Patel⁴¹ paved the way to change to intentional reasoning; Therefore, SEBI's mandate should receive a wide interpretation, and the substance must be taken into consideration and not the form. These decisions have provided SEBI tools to deal with unforeseen situations and emphasize that investors protection is the main objective of the securities law.

The change to intentional interpretation has legitimate concerns. In large part, the laws are read by SEBI in a much broader sense than intended by Parliament and therefore create uncertainty for companies on how to fill. The term "purpose" is subjective and will produce unpredictable results based on the court. Critics complain that over-consumption of the targeted construction can be truncated for power separation and deliver legislators to judges and regulators. These problems remind us that although intentional interpretation is use, it should not have a Uncontested application. So, we need a fair balance. True intention must be linked to the word of the law, its history and the spirit that underlies the SEBI law⁴².

The balance can be achieved by SEBI and provides unmistakable guidelines for the use of broad terms, such as "scams" or "public offers", so that companies are aware of what is well understood in advance. At the same time, continuous supervision of the Court of Securities Air and the Supreme Court should continue to improve intentional interpretation, not so much of arbitrary decisions and sufficient flexibility. In a nutshell, intentional construction became a necessary part of SEBI's work and maintained securities markets in India. It is a success with reform that courts and regulators find the right balance between flexibility and security. As long as this balance is maintained, the targeted construction will remain a power and principled tool to protect investors and increase the confidence to support the extra growth in India's capital markets.

³⁸ *Supra* Note 21.

³⁹ *Supra* Note 24.

⁴⁰ *Supra* Note 31.

⁴¹ *Supra* Note 38.

⁴² *Supra* note 7.