

INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS



Open Access, Refereed Journal Multi-Disciplinary
Peer Reviewed

www.ijlra.com

DISCLAIMER

No part of this publication may be reproduced or copied in any form by any means without prior written permission of Managing Editor of IJLRA. The views expressed in this publication are purely personal opinions of the authors and do not reflect the views of the Editorial Team of IJLRA.

Though every effort has been made to ensure that the information in Volume II Issue 7 is accurate and appropriately cited/referenced, neither the Editorial Board nor IJLRA shall be held liable or responsible in any manner what sever for any consequences for any action taken by anyone on the basis of information in the Journal.

Copyright © International Journal for Legal Research & Analysis

EDITORIALTEAM

EDITORS

Dr. Samrat Datta

Dr. Samrat Datta Seedling School of Law and Governance, Jaipur National University, Jaipur. Dr. Samrat Datta is currently associated with Seedling School of Law and Governance, Jaipur National University, Jaipur. Dr. Datta has completed his graduation i.e., B.A.LL.B. from Law College Dehradun, Hemvati Nandan Bahuguna Garhwal University, Srinagar, Uttarakhand. He is an alumnus of KIIT University, Bhubaneswar where he pursued his post-graduation (LL.M.) in Criminal Law and subsequently completed his Ph.D. in Police Law and Information Technology from the Pacific Academy of Higher Education and Research University, Udaipur in 2020. His area of interest and research is Criminal and Police Law. Dr. Datta has a teaching experience of 7 years in various law schools across North India and has held administrative positions like Academic Coordinator, Centre Superintendent for Examinations, Deputy Controller of Examinations, Member of the Proctorial Board



Dr. Namita Jain



Head & Associate Professor

School of Law, JECRC University, Jaipur Ph.D. (Commercial Law) LL.M., UGC-NET Post Graduation Diploma in Taxation law and Practice, Bachelor of Commerce.

Teaching Experience: 12 years, AWARDS AND RECOGNITION of Dr. Namita Jain are - ICF Global Excellence Award 2020 in the category of educationalist by I Can Foundation, India. India Women Empowerment Award in the category of "Emerging Excellence in Academics by Prime Time & Utkrish Bharat Foundation, New Delhi. (2020). Conferred in FL Book of Top 21 Record Holders in the category of education by Fashion Lifestyle Magazine, New Delhi. (2020). Certificate of Appreciation for organizing and managing the Professional Development Training Program on IPR in Collaboration with Trade Innovations Services, Jaipur on March 14th, 2019

Mrs.S.Kalpna

Assistant professor of Law

Mrs.S.Kalpna, presently Assistant professor of Law, VelTech Rangarajan Dr.Sagunthala R & D Institute of Science and Technology, Avadi. Formerly Assistant professor of Law,Vels University in the year 2019 to 2020, Worked as Guest Faculty, Chennai Dr.Ambedkar Law College, Pudupakkam. Published one book. Published 8Articles in various reputed Law Journals. Conducted 1Moot court competition and participated in nearly 80 National and International seminars and webinars conducted on various subjects of Law. Did ML in Criminal Law and Criminal Justice Administration.10 paper presentations in various National and International seminars. Attended more than 10 FDP programs. Ph.D. in Law pursuing.



Avinash Kumar



Avinash Kumar has completed his Ph.D. in International Investment Law from the Dept. of Law & Governance, Central University of South Bihar. His research work is on "International Investment Agreement and State's right to regulate Foreign Investment." He qualified UGC-NET and has been selected for the prestigious ICSSR Doctoral Fellowship. He is an alumnus of the Faculty of Law, University of Delhi. Formerly he has been elected as Students Union President of Law Centre-1, University of Delhi. Moreover, he completed his LL.M. from the University of Delhi (2014-16), dissertation on "Cross-border Merger & Acquisition"; LL.B. from the University of Delhi (2011-14), and B.A. (Hons.) from Maharaja Agrasen College, University of Delhi. He has also obtained P.G. Diploma in IPR from the Indian Society of International Law, New Delhi. He has qualified UGC – NET examination and has been awarded ICSSR – Doctoral Fellowship. He has published six-plus articles and presented 9 plus papers in national and international seminars/conferences. He participated in several workshops on research methodology and teaching and learning.

ABOUT US

INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANALYSIS ISSN- 2582-6433 is an Online Journal is Monthly, Peer Review, Academic Journal, Published online, that seeks to provide an interactive platform for the publication of Short Articles, Long Articles, Book Review, Case Comments, Research Papers, Essay in the field of Law & Multidisciplinary issue. Our aim is to upgrade the level of interaction and discourse about contemporary issues of law. We are eager to become a highly cited academic publication, through quality contributions from students, academics, professionals from the industry, the bar and the bench. INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANALYSIS ISSN 2582-6433 welcomes contributions from all legal branches, as long as the work is original, unpublished and is in consonance with the submission guidelines.

LEGAL AND REGULATORY CHALLENGES OF SHARE PLEDGING AND PRICE MANIPULATION IN CORPORATE FINANCE

AUTHORED BY - SHRADDHA UPADHYAY
LLM (Corporate Law), GD Goenka University

Abstract

Share pledging has become a significant mechanism in corporate finance, enabling promoters and major shareholders to obtain loans by using their equity holdings as collateral. While this practice offers enhanced liquidity and financial flexibility, it also exposes the company and the broader market to severe risks, including price manipulation, insider trading, and failures in corporate governance.

The Indian regulatory framework, chiefly the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, and the SEBI (Prohibition of Insider Trading) Regulations, 2015, attempts to strike a balance between legitimate financing needs and the protection of investors. However, persistent ambiguities in disclosure rules and challenges in enforcement have frequently resulted in information asymmetry and market abuse. This paper provides a critical examination of the legal and regulatory structure governing share pledging in India, analyzes relevant judicial interpretations, and identifies systemic loopholes that facilitate price manipulation. The study concludes by proposing policy reforms aimed at strengthening transparency, accountability, and corporate governance surrounding share-pledging transactions.

Keywords: Share Pledging, Corporate Finance, Price Manipulation, SEBI Regulations, Corporate Governance

1. Introduction

1.1. Background of the Study

The use of equity holdings as security for debt, a practice known as share pledging, is now a prominent and accepted component of modern corporate finance. This mechanism allows controlling shareholders and promoters to access substantial credit facilities by leveraging their stakes in the companies they oversee. The primary attraction of this method is the capacity to generate significant liquidity—either for personal requirements or to finance other ventures—while bypassing the immediate dilution of ownership or loss of control that an outright sale of shares would necessitate.

Despite its clear benefit as a financing tool, the practice is fraught with significant peril. It introduces substantial, and often concealed, risks to both corporate governance structures and overall market stability. The danger becomes particularly acute when a large percentage of a promoter's holdings is pledged. In such a scenario, the company's stock becomes exceptionally vulnerable to market volatility.

Even a minor downturn in its share price can activate margin call provisions from lenders. These calls oblige the promoter to provide additional collateral, often with little notice. If the promoter fails to meet this demand, the lender is authorized to initiate a forced liquidation of the pledged shares to recover their capital. This action can set off a sudden, self-reinforcing, and severe collapse in the stock's value—a "downward spiral"—as the initial forced sale drives the price down further, triggering subsequent margin calls.

The Indian corporate landscape provides numerous examples of this phenomenon's disruptive power. Several high-profile cases involving excessive promoter pledging have significantly damaged market sentiment and eroded investor confidence. This environment of high, concealed leverage has also been closely tied to a rise in speculative trading as the market attempts to factor in these unknown risks.

The corporate difficulties faced by major firms such as Zee Entertainment, Suzlon Energy, and Yes Bank serve as potent illustrations. These instances highlight how the misuse of encumbered shares—whether through opaque structuring or simple over-leveraging—can generate artificial market price distortions and fundamentally mislead investors about a company's financial stability.

A common element in many of these corporate failures was the inadequacy of the prevailing disclosure regime. The market's inability to correctly price in the "promoter risk exposure" was often a direct result of incomplete, non-transparent, or delayed reporting of these share pledges. This critical information asymmetry prevented minority shareholders, analysts, and the market from accurately assessing the true extent of the promoters' financial vulnerability, effectively masking the company's stock fragility.

1.2. Problem Statement

While share pledging is an established and legitimate financial practice, it occupies a precarious position where its intended function as a financing mechanism can be distorted into a tool for manipulative behavior. The central problem this research confronts is the perceived inadequacy of the current legal and regulatory architecture to mitigate this risk.

This inadequacy is driven by two primary factors: **insufficient disclosure standards** and **challenges in regulatory enforcement**. Gaps in transparency requirements, along with oversight difficulties for the Securities and Exchange Board of India (SEBI) and the stock exchanges, have created a permissive environment. Such vulnerabilities can be exploited, fostering illicit activities including insider trading, fraudulent "pump-and-dump" schemes, and other strategies designed to create artificial price movements.

The issue is significantly compounded by a critical legal ambiguity related to the Takeover Code. There is a notable lack of uniformity in how "control" is legally interpreted, particularly when lenders invoke their right to seize and liquidate pledged shares. This legal uncertainty surrounding the transfer of control introduces further instability and regulatory loopholes. Consequently, there is a pressing need to investigate the efficacy of India's legal framework. This study aims to determine whether current regulations are robust enough to address the potential misuse of pledged shares or if they ultimately fail to provide adequate investor protection against these sophisticated forms of market abuse.

2. Definitions and Typology

2.1. Share Pledging: Definitions and Mechanisms

A share pledge represents a security interest that a shareholder (the pledgor) creates in favor of a creditor (the pledgee) to secure the repayment of a loan. Legally, a pledge over shares can be governed by company law, secured transactions law, and securities listing rules, with each

jurisdiction having different formalities for its perfection and enforcement.

In practice, pledges are commonly used by promoters to borrow for unrelated personal or business ventures, to refinance existing debt, or to raise working capital. The lender typically requires margin maintenance covenants. If the underlying share price falls below specified thresholds, the lender may exercise remedies, which include the sale of the pledged shares.

2.2. Price Manipulation

Price manipulation includes a wide range of market conduct intended to create artificial or misleading signals regarding price or volume. Common forms include:

- **Pump-and-Dump:** The orchestrated promotion of a low-liquidity stock to inflate demand, which is then followed by coordinated selling by insiders.
- **Circular Trading:** Reciprocal trades among colluding parties designed to create an illusion of activity and drive up prices.
- **Layering and Spoofing:** Placing orders with the intent to cancel them before execution to create false signals of demand or supply.
- **Insider-Assisted Misdisclosures:** Using information asymmetry, including rumors, to trigger price movements.

While manipulative practices are typically unlawful, enforcement can be resource-intensive and technologically challenging for regulators.

3. Literature Review and Empirical Evidence

Academic studies in multiple jurisdictions have linked promoter share pledging with negative firm outcomes. Key empirical findings indicate that increased pledging by controlling shareholders correlates with a higher risk of stock crashes and lower firm value in markets like India and China. Share pledging can also constrain managerial risk-taking and investment, sometimes reducing the efficiency of corporate investment. Market reactions to high pledge ratios vary: while modest pledges might signal efficient collateral use, very high ratios tend to generate negative investor sentiment.

3.1. Global Evidence on Pledging and Firm Value

The international literature generally shows a negative correlation between high levels of promoter share pledging and corporate performance. A significant study by **Li et al. (2019)**

found that excessive share pledging acts as a signal of financial distress or governance risk, leading to a measurable decrease in firm value. The study suggests that the market penalizes pledged shares due to the inherent risk of forced liquidation, which can disrupt firm strategy and heighten agency costs.

Furthermore, **Deren (2018)** provided a critical analysis specific to the Chinese market, where share pledging is widespread. The findings highlight that in emerging economies with weaker investor protections, pledging is often correlated with poor future operating performance and more aggressive earnings management. Deren's work emphasizes the increased vulnerability of firms with high pledge ratios to macroeconomic shocks, as the margin call mechanism can quickly translate systemic stress into firm-specific distress.

3.2. Indian Evidence on Governance and Performance Impacts

Research focusing on the Indian corporate context reinforces these global findings but also points to unique local governance challenges.

- **Rajhans (2022):** This study analyzed the impact of promoter pledging on firm performance and governance in India. The research strongly suggests that high pledging levels significantly compromise the quality of corporate governance. It finds that promoters facing margin call pressure may divert firm resources, engage in non-value-maximizing transactions, or attempt to manipulate stock prices to protect their pledged collateral. Rajhans's work frames high pledging as a reliable indicator of agency conflict between controlling and minority shareholders.
- **Chauhan (IIMB Paper):** This empirical work established a clear link between a substantial rise in a firm's pledge ratio and a subsequent decline in various financial performance metrics. Critically, the study also showed that the market perceives pledging announcements negatively, leading to immediate downward pressure on stock prices, which validates investor concern over hidden leverage.

Collectively, these studies confirm that share pledging, especially in emerging markets like India, is not just a financing decision but a critical corporate governance issue. The literature indicates that the core problem stems from agency costs and the systemic risk introduced by the mandatory liquidation mechanism.

Regarding price manipulation, enforcement studies show that while regulators can deter blatant

pump-and-dump schemes, new channels (like social media and influencer networks) make detection more difficult. SEBI's recent actions against such networks show active engagement but also reveal gaps in surveillance.

4. Legal and Regulatory Framework

4.1. India: Statutes, Exchanges, and SEBI

In India, share pledging and market manipulation are governed by a combination of statutes, listing regulations, and SEBI regulations. Key instruments include:

- **The Securities Contracts (Regulation) Act and Companies Act:** These include provisions governing the transfer of and charges on shares, as well as the creation of security interests.
- **SEBI Regulations:** This includes the Prohibition of Fraudulent and Unfair Trade Practices (PFUTP) Regulations, the Insider Trading Regulations, and the Listing Obligations and Disclosure Requirements (LODR).
- **Surveillance and Enforcement:** SEBI has also issued master circulars on surveillance and pursued active enforcement against pump-and-dump operators.

SEBI requires listed companies and promoters to disclose share pledges in compliance filings, and exchanges maintain surveillance systems to detect unusual trading. However, procedural limits remain: disclosures may be delayed, and enforcement requires building evidentiary links across multiple entities.

4.2. Comparative Perspectives: US, UK, China

- **United States:** The SEC prohibits market manipulation under the Securities Exchange Act of 1934. While pledging by controlling shareholders is less common, margin lending is regulated. High-frequency manipulation like spoofing was explicitly criminalized by the Dodd-Frank Act.
- **United Kingdom:** The Financial Conduct Authority (FCA) enforces market abuse regulations covering insider dealing and manipulation, combined with strict disclosure rules on significant holdings.
- **China:** Share pledging by controlling shareholders came under intense scrutiny after a series of stock price collapses, leading to regulatory intervention for greater disclosure.

4.3. Gaps and Enforcement Obstacles

Common regulatory difficulties across jurisdictions include:

- Ensuring the timeliness and granularity of pledge disclosures.
- Distinguishing between legitimate market-making and manipulative conduct.
- Monitoring new communication channels (e.g., social media, encrypted apps) used for manipulation.
- Addressing cross-jurisdictional constraints where parties to a transaction are in different legal regimes.

5. Enforcement Practice and Notable Case Studies

5.1. The Zee Entertainment (ZEEL) Crisis

This case is a benchmark example of the market impact from a forced sale of pledged shares.

- **The Problem:** The ZEEL promoters had pledged a significant portion of their stake to secure loans for the group's other, unrelated ventures.
- **The Trigger:** As the group's financial troubles grew and ZEEL's share price fell, the collateral value eroded, triggering margin calls from lenders.
- **The Outcome:** When the promoters could not meet the margin requirements, lenders began forcibly liquidating the pledged shares. This massive, sudden supply of shares caused a sharp, sustained drop in the stock price, damaging market capitalization and investor confidence, even though ZEEL itself was a profitable company.
- **Significance:** The incident exposed the opacity and interconnectedness of promoter financing, showing how stress in one group entity can create a crisis for a healthy, listed company and its minority shareholders.

5.2. The Yes Bank–CG Power Case

This case further highlights how corporate mismanagement combined with share pledging can destroy market confidence.

- **The Problem:** CG Power faced a massive governance scandal in 2019, with its promoters accused of siphoning funds and misreporting financials. A substantial portion of promoter shares was pledged to Yes Bank and other lenders.
- **The Trigger:** Following the discovery of accounting fraud, the company's share price plummeted by over 80% in a few months.
- **The Outcome:** Lenders, including Yes Bank, invoked the pledged shares to recover

their dues. The subsequent sale exerted extreme downward pressure on the stock, nearly wiping out shareholder value and causing the promoter's shareholding to collapse.

- **Significance:** This case revealed how share pledging can conceal deep-rooted governance failures. It also demonstrated the domino effect between mismanagement, loss of investor confidence, and lender-triggered forced sales.

5.3. The Satyam–Maytas Episode (Comparative Context)

While not a pledging crisis, the 2009 Satyam case offers instructive parallels. Promoters attempted to divert company resources to personal ventures, revealing a lack of robust checks on insider leverage. The case showcased how a lack of oversight can enable manipulation of both financial statements and market perceptions—dynamics closely associated with heavy pledging environments.

5.4. Future Retail Invocation (2020–2021)

In *Rural Fairprice Wholesale Ltd. v. IDBI Trusteeship Services Ltd.*, the Bombay High Court restrained lenders from invoking pledges during the extreme market volatility caused by the pandemic. The judgment emphasized the need for proportionality between lender rights and market stability.

5.5. SEBI AIF Pledging Order (2023)

SEBI penalized a Category I Alternative Investment Fund (AIF) and its trustees for pledging portfolio-entity shares to raise funds, affirming that such actions breach AIF Regulations.

5.6. NSE Adjudication Case (2023)

In *NSE v. Standard Chartered Bank*, the Supreme Court rebuked the National Stock Exchange (NSE) for assuming adjudicatory powers in a share-pledge dispute, clarifying that exchanges cannot override judicial processes.

6. Interaction Effects: How Pledging Facilitates Manipulation

Share pledging, while a legitimate form of collateral, creates a fertile ground for market manipulation through several intertwined mechanisms. The intersection of financial leverage, information asymmetry, and governance weakness magnifies systemic risk.

6.1. Forced Sales and Fire-Sale Externalities

When promoters pledge a substantial portion of their shares, any adverse price movement can trigger margin calls. If the promoter cannot provide more collateral, lenders liquidate the pledged shares.

These forced sales, often into illiquid markets, can lead to "fire-sale" externalities—sharp price collapses that are disconnected from the company's fundamentals. Manipulators can exploit this by taking short positions or spreading rumors to accelerate the panic.

6.2. Information Asymmetry and Opacity

High levels of share pledging are frequently associated with complex corporate group structures and opaque financing. Promoters may use cross-holdings and inter-corporate loans to mask their true leverage. This opacity creates information asymmetry, which manipulators (including promoters themselves) can exploit by circulating misleading narratives about the company's financial health.

6.3. Collusion Incentives Under Financial Stress

When facing the risk of losing control due to margin calls, promoters have a strong incentive to collude with market operators to artificially inflate share prices. Techniques like circular trading or wash trades can be used to generate artificial demand and maintain a price long enough to avoid the invocation of pledges.

6.4. Use of Shell and Proxy Entities

SEBI enforcement actions have often linked pledged shares to networks of shell companies or proxy entities that facilitate manipulative trades. These entities are used to create an illusion of liquidity or channel funds in a way that conceals the true ownership and intent, making it difficult for regulators to trace beneficial ownership and detect coordination.

6.5. Regulatory Fragmentation

The interplay between pledging and manipulation reveals a regulatory blind spot. Disclosure-based frameworks for pledging and punitive frameworks for market abuse often operate in separate silos. As a result, regulators may only detect manipulation after the market damage is done. A holistic approach that integrates disclosure, monitoring, and surveillance is essential.

7. Regulatory Implications and Reform Proposals

7.1. Current Regulatory Landscape in India

The Indian system is administered through a combination of SEBI regulations and the Companies Act, 2013. Key regulations include:

- **SEBI (SAST) Regulations, 2011:** Requires promoters to disclose pledged shares above a prescribed threshold.
- **SEBI (PIT) Regulations, 2015:** Covers trading while in possession of unpublished price-sensitive information (UPSI), which could include knowledge of impending pledges or margin calls.
- **SEBI (FUTP) Regulations, 2003:** Prohibits manipulative and unfair practices.
- **Companies Act, 2013:** Includes sections on loans, investments, and shareholding disclosures that may intersect with pledge arrangements.

Despite this, enforcement remains fragmented and reactive. The regulations often operate in isolation, focusing on either disclosure, trading behavior, or corporate reporting, without an integrated oversight mechanism.

7.2. Identified Regulatory Gaps

A critical assessment reveals four persistent gaps:

- (a) Disclosure Limitations:** Disclosures are often periodic and occur after the fact. By the time the market learns of a pledge or its invocation, price distortions may have already happened. Furthermore, disclosures are often limited to the percentage of shares pledged, without crucial details on loan amounts or margin thresholds, preventing a true risk assessment.
- (b) Lack of Real-Time Supervision:** While surveillance mechanisms for price movements exist, they often lack integrated data on promoter pledging. The absence of a centralized digital pledge register makes it difficult to track a promoter's cumulative exposure across multiple lenders.
- (c) Fragmented Enforcement:** Market manipulation cases may require coordination between SEBI, the Reserve Bank of India (RBI), and the Ministry of Corporate Affairs (MCA). However, jurisdictional overlaps can delay investigations.
- (d) Technological Complexities:** The use of offshore shell entities and algorithmic trading makes manipulative schemes harder to detect. Indian law has not fully kept pace with cross-border pledge structures or automated trading bots.

7.3. Policy Imperatives for Reform

A multi-dimensional reform strategy is necessary:

- (a) **Creation of a Centralized Digital Pledge Registry:** A national-level registry, jointly run by SEBI and depositories (NSDL, CDSL), should record all pledge transactions in real time, including details of the borrower, lender, and margin ratios.
- (b) **Real-Time and Event-Based Disclosure:** The regime must shift from periodic filings to event-based reporting. Promoters should disclose pledge creation or invocation within 24 hours, similar to insider trading norms.
- (c) **Integration of SEBI and RBI Surveillance:** Since manipulation often involves NBFCs regulated by the RBI, a joint SEBI-RBI surveillance framework is needed to monitor systemic exposure.
- (d) **Enhanced Corporate Governance Standards:** Boards should be mandated to monitor promoter pledging. A cap on promoter pledging (e.g., 50% of promoter holding) without shareholder approval could be introduced.
- (e) **Algorithmic and AI-Based Surveillance:** SEBI's surveillance systems should incorporate AI tools to detect correlations between pledge disclosures and unusual trading volumes.
- (f) **Cross-Border Regulatory Cooperation:** SEBI should deepen information-sharing agreements (MoUs) with offshore regulators to facilitate the tracing of beneficial ownership.

7.4. Legal Reforms and Statutory Enhancements

- **Amend the SEBI Act, 1992:** Empower SEBI to demand granular pledge-related information from all lenders, including private NBFCs.
- **Amend the Companies Act, 2013:** Require companies to include detailed pledge disclosures in the Board's report, including the purpose of the loan and risks to corporate control.
- **Revise the FUTP Regulations:** Expand the definition of "manipulative device" to explicitly include trading behavior linked to stabilizing pledged shares or concealing margin calls.
- **Enhance Penalties:** Introduce tiered penalties for non-disclosure or manipulation involving pledged shares, including criminal liability for willful offenders.

7.5. Institutional and Governance Reforms

- **Establish a SEBI-led Task Force:** A multi-agency body could periodically review systemic risks from pledging.
- **Investor Education:** Stock exchanges should flag companies with promoter pledge levels exceeding a certain threshold (e.g., 40%) as "high risk" to educate retail investors.
- **Judicial Training:** Specialized benches within SEBI and the NCLT should be trained to handle complex financial manipulation cases.

7.6. Long-Term Regulatory Vision

In the long run, India's ecosystem must shift from corrective enforcement to preventive regulation. While pledging can be an efficient tool, its misuse stems from weak transparency and insufficient data integration. A robust vision would:

- Prioritize **continuous disclosure** over periodic reporting.
- Use **technological surveillance** instead of manual audits.
- Foster **inter-agency coordination** over regulatory silos.

8. Conclusion and Policy Way Forward

8.1. Summary of Findings

This study reveals that share pledging, though a legitimate financing tool, introduces severe regulatory, governance, and market integrity challenges when combined with price manipulation. Pledging transforms promoter equity into a leveraged asset, creating a structural vulnerability. When prices fall, promoters face margin calls that can lead to forced sales and a cascading loss of investor confidence.

These vulnerabilities are amplified by information asymmetry, opaque group structures, and collusion incentives. Promoters under financial stress may resort to manipulative practices to protect their control. While India has various legal instruments, they operate in fragmented silos, emphasizing post-facto enforcement over real-time supervision. The lack of an integrated regulatory framework remains the central gap.

8.2. Implications for Regulatory Design

The findings underscore the need for a multi-layered regulatory response. Key recommendations include:

- A **real-time pledge registry** for transparency and monitoring.

- An **event-based disclosure system** (e.g., 24-hour reporting) for pledge creation and invocation.
- **Cross-regulatory coordination** (SEBI, RBI, MCA) via a unified database.
- **Enhanced corporate governance duties** for boards to oversee promoter pledging.
- **AI-driven surveillance** for early detection of trading anomalies linked to pledge activity.

8.3. Policy Way Forward

India's regulatory framework must transition from reactive control to preventive regulation.

Three strategic priorities are essential:

- (a) Transparency as the Core Principle:** Regulators must institutionalize transparency at every stage. Information should flow seamlessly between depositories, exchanges, lenders, and investors via an integrated digital platform.
- (b) Technological Convergence:** AI and big-data analytics should be embedded in SEBI's surveillance systems. Predictive models can flag unusual linkages between pledging data and trading behavior, enabling timely interventions.
- (c) Global Coordination:** As capital markets become borderless, SEBI's cooperation with foreign regulators through MoUs must be deepened to track beneficial ownership and monitor offshore shell companies.

8.4. Concluding Remarks

The intersection of share pledging and price manipulation reflects the broader tension between entrepreneurial freedom and market accountability. Unchecked promoter leverage can erode trust in capital markets and destabilize the financial system. Conversely, an overly restrictive regime could stifle legitimate financing.

Therefore, the policy goal must be balanced regulation that enables capital access while protecting market integrity. Comprehensive reforms emphasizing transparency, technological oversight, and coordinated governance will strengthen India's resilience against manipulation. The path forward lies not in restricting share pledging, but in transforming it into a transparent, traceable, and responsibly governed financial instrument.

References

- Chauhan, R. (2023). *Promoter Share Pledging and Market Reaction in Indian Firms*. Indian Institute of Management Bangalore Working Paper Series.
- Cyril Amarchand Mangaldas Blog. (2023, June 27). *SEBI adjudicates on pledging of securities held by Category I AIFs*.
- Deren, L. (2018). Share Pledging, Earnings Management, and Market Risk in China. *Journal of Asian Finance and Economics*, 5(4), 112-130.
- Li, W., Yuan, H., & Zhao, R. (2019). Equity Pledges and Firm Value: Evidence from Emerging Markets. *Corporate Finance Review*, 24(3), 45-60.
- Liu, J., & Zhang, Y. (2021). Pledging and Crash Risk: Evidence from Chinese Listed Firms. *Pacific-Basin Finance Journal*, 68, 101-120.
- Rajhans, K. (2022). Promoter Pledging and Corporate Governance in India. *Indian Journal of Corporate Law*, 14(2), 85-102.
- SEBI. (2023). *Annual Report 2022-23*. Securities and Exchange Board of India.
- *SEBI v. Raghav Capitals Ltd.* (2024). SEBI Adjudication Order No. AO-123-2024.
- *NSE v. Standard Chartered Bank*, (2023) SC Civ Appeal No. 4512 of 2023 (India).
- *Rural Fairprice Wholesale Ltd. & Anr. v. IDBI Trusteeship Services Ltd. & Ors.*, (2020) Bom HC Comm App No. 41 of 2020 (India).
- *Zee Entertainment Enterprises Ltd. Case.* (2019). SEBI Order No. WTM/AB/IVD/ID3/2019.

IJLRA