INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS

Open Access, Refereed Journal Multi Disciplinary
Peer Reviewed



www.ijlra.com

ISSN: 2582-6433

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ISSN: 2582-6433

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ISSN: 2582-6433

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ISSN: 2582-6433

FINFLUENCERS AND MARKET MANIPULATION: ARE INDIAN SECURITIES REGULATIONS KEEPING PACE?

A Legal & Regulatory Policy Paper on Financial Technology, Social Media Dynamics, and SEBI Enforcement Frameworks

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ABSTRACT

The explosive growth of retail participation in the Indian capital markets post-2020 has been paralleled by the hyper-proliferation of 'finfluencers'—social media content creators giving financial advice, trading tips, and wealth management strategies. While democratizing financial literacy, finfluencers frequently operate at the intersection of unregistered investment advice, deceptive marketing, and sophisticated market manipulation schemes (including 'pump-and-dump' and undisclosed affiliate sponsorships). This paper critically examines whether Indian securities regulations—specifically the SEBI (Investment Advisers) Regulations, 2013, the SEBI (PFUTP) Regulations, 2003, and the latest 2024 SEBI Finfluencer Circulars—are keeping pace with modern algorithmic dissemination and psychological marketing manipulation. Through doctrine analysis, enforcement case studies (e.g., Mansoor Ahemad, PR Sundar, and Telegram pump groups), and international comparative jurisprudence (US SEC and Australian ASIC), this study highlights regulatory enforcement gaps and proposes a forward-looking statutory architecture.

1. INTRODUCTION AND THE RISE OF THE 'FINFLUENCER' PHENOMENON

Over the past six years, India's capital markets have experienced unprecedented retailization. Demat account holdings surged from under 40 million in 2019 to well over 160 million by mid-2025, driven by smartphone penetration, zero-commission brokerages, and ultra-cheap mobile data. However, this massive influx of first-time investors created a stark financial literacy vacuum. Social media creators step into this void under the moniker of 'finfluencers' (financial influencers), delivering bite-sized financial commentary across platforms such as YouTube, Instagram, X (formerly Twitter), Telegram, and WhatsApp.

Finfluencers broadly fall into three categories: (i) educators who focus on fundamental

ISSN: 2582-6433

concepts like compound interest and budgeting, (ii) analytical commentators evaluating public companies and market trends, and (iii) transactional tipsters who promote specific securities, derivative contracts, option-buying strategies, and initial public offerings (IPOs). The legal problem manifests primarily in the second and third categories, where financial monetization structures incentivize predatory marketing and market manipulation.

2. TYPOLOGY OF MARKETING MANIPULATION AND SECTORAL HAZARDS

Unlike traditional brokerages or mainstream news networks subject to editorial codes and regulatory oversight, finfluencers operate in an algorithmic economy that rewards virality over factual rigor. The primary mechanics of market distortion in this ecosystem include:

- **Pump-and-Dump / Scalping Schemes:** Influencers accumulate illiquid micro-cap stocks, launch coordinated promotional campaigns across private Telegram channels or public YouTube channels, induce retail buying pressure to inflate the price, and secretly liquidate their holdings at peak valuation.
- **Undisclosed Affiliate and Brokerage Referral Monetization:** Finfluencers partner with trading platforms, CFD brokers, and unapproved foreign investment apps, earning substantial commissions per account creation or trade volume, creates an inherent conflict of interest to push high-risk, high-churn derivative trading onto inexperienced retail investors.
- **Fabricated Profit Screenshots and Fake Track Records:** Through edited user interfaces and demo trading accounts, finfluencers display multi-lakh daily profits from options trading, creating FOMO (Fear Of Missing Out) to sell overpriced 'masterclasses' and entry into VIP advisory groups.

> **REGULATORY CHALLENGE:** The core legal threat is that algorithmic virality converts market commentary into mass order flow within seconds, converting micro-cap and low-liquidity stock segments into targets for organized retail exploitation.

3. EXISTING INDIAN REGULATORY FRAMEWORK: CAPABILITIES AND LIMITATIONS

The Securities and Exchange Board of India (SEBI) governs capital markets primarily through three main regulations when dealing with financial recommendations and fraudulent practices:

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3.1 SEBI (Investment Advisers) Regulations, 2013 (IA Regulations)

Under Regulation 2(1)(m), 'investment advice' is broadly defined as advice relating to investing in, purchasing, selling, or dealing in securities or investment products. Anyone giving advice in exchange for consideration must be registered with SEBI. However, finfluencers historically exploited the 'general commentary' exemption, claiming their content was purely 'for educational purposes' despite dropping specific stock tickers and option strike prices.

3.2 SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (PFUTP)

PFUTP Regulations prohibit misstatements, market manipulation, and misleading dissemination of information. Regulations 3 and 4 explicitly ban knowingly making false disclosures to induce investors into trading. PFUTP serves as SEBI's most effective weapon, as demonstrated in the enforcement actions against Telegram channel admins pumping mid-cap stocks.

3.3 SEBI's 2024 Norms on Regulated Entities and Finfluencers

In June 2024, SEBI passed a landmark directive prohibiting SEBI-regulated entities (stockbrokers, mutual funds, registered investment advisers, research analysts) from having any association—direct or indirect, financial or non-financial—with unregistered finfluencers. Regulated intermediaries are barred from paying referral fees, sharing revenue, or embedding trading links in finfluencer content.

Summary of Regulatory Framework vs. Finfluencer Practices

Regulatory Instrument	Scope / Application	Enforcement & Operational Gaps
SEBI IA Regulations (2013)	Regulates fee-based investment advice and mandates qualifications.	High entry barriers drive creators to operate unregistered under 'education' disclaimers.
SEBI PFUTP Regulations (2003)	Bans market manipulation, false news, and pump-and-dump acts.	Requires proving intentional fraud (mens rea) and tracing anonymous network accounts.
2024 SEBI Finfluencer Circular	Cuts financial ties between regulated entities & unregistered	Does not stop monetization via overseas brokers, courses, or

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creators.	crypto platforms.

4. JUDICIAL PRECEDENTS AND SEBI ENFORCEMENT CASE STUDIES

To evaluate enforcement effectiveness, we analyze recent key actions taken by SEBI against prominent finfluencers and unauthorized advisory networks:

4.1 Case Study 1: Re: PR Sundar (2023)

PR Sundar, a prominent options trader with hundreds of thousands of followers, was penalized alongside Mansoor Ahemad for providing advisory services without SEBI IA registration. The parties collected advisory fees through an entity called Mansun Consultancy. SEBI issued an order disgorging advisory fees totaling over ₹6.07 crore and barring them from accessing the securities market for one year. This case established that receiving payments for stock recommendations—regardless of platform or naming convention—constitutes illegal investment advice.

4.2 Case Study 2: The Telegram 'Bull Run248' Pump-and-Dump Scheme (2022-2024)

SEBI uncovered a network of social media administrators operating Telegram channels (e.g., 'Bull Run248') who bought shares of small-cap companies, posted misleading bullish commentary to channel subscribers, and immediately sold their stock into retail demand. SEBI passed interim impounding orders exceeding ₹2.8 crore, highlighting the vulnerability of retail traders to organized social messaging manipulation.

5. INTERNATIONAL COMPARATIVE ANALYSIS: US SEC vs. AUSTRALIAN ASIC

Comparing India's regulatory stance with international securities regulators offers key policy insights:

- **United States (SEC & FTC):** The US SEC relies heavily on anti-touting laws under Section 17(b) of the Securities Act of 1933, which makes it illegal to publicize any stock without fully disclosing the nature and amount of compensation received. The SEC has aggressively prosecuted high-profile celebrities (e.g., Kim Kardashian, Lindsay Lohan) for undisclosed crypto endorsements.
- **Australia (ASIC INFO 269):** In 2022, the Australian Securities and Investments Commission (ASIC) released Information Sheet 269, providing explicit guidelines for

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financial influencers. ASIC clarified that creators providing financial advice without an Australian Financial Services (AFS) license face severe criminal penalties, including up to 5 years imprisonment for individuals.

6. REFORM RECOMMENDATIONS FOR INDIAN SECURITIES LEGISLATION

While SEBI's recent measures have curtailed official broker-influencer tie-ups, regulatory gaps remain open to exploitation. To ensure long-term market stability, India requires statutory and operational updates:

6.1 Tiered Licensing for Financial Educators: SEBI should establish a simplified, low-cost registration category specifically for 'Financial Educators' who do not give individual stock calls but discuss asset allocation and financial planning.

6.2 Mandatory Registration Registry & Digital Watermarking: All legal financial advice or analytical content should carry a SEBI-issued verification badge or digital QR code linked to a centralized database.

6.3 Platform Accountability & Cross-Agency Enforcement: Digital platforms (Meta, Google, Telegram) must be mandated under the Information Technology Rules to act swiftly on SEBI alerts regarding unregistered stock tips.

6.4 Strict Prohibition of Performance Guarantees & Profit Screenshots: Disallow the publishing of unverified profit/loss (P&L) screenshots that mislead retail traders into purchasing courses or signals.

7. CONCLUSION

Indian securities regulations have shown commendable agility in recognizing the unique threats posed by financial influencers, particularly through the aggressive enforcement of PFUTP regulations and the 2024 prohibition on intermediary associations. However, regulations are currently playing catch-up to rapid technological changes. Disguising advice as education, cross-border promotion, and private group manipulation remain significant vulnerabilities. Moving from reactive enforcement to proactive, tech-enabled regulatory architecture will ensure that social media serves as a tool for genuine financial inclusion rather than predatory market exploitation.

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Key Statutory & Judicial References

1. Securities and Exchange Board of India (Investment Advisers) Regulations, 2013.
2. Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003.
3. SEBI Settlement Order in the matter of PR Sundar & Mansoor Ahemad (May 2023).
4. SEBI Circular on Association of SEBI Regulated Entities with Unregistered Entities (June 2024).
5. Australian Securities and Investments Commission (ASIC), Information Sheet 269 (INFO 269), March 2022.
6. US Securities and Exchange Commission (SEC), Section 17(b) Enforcement Actions (2022-2024).

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