

Sebi ramps up investigations amid market turmoil

Neha Joshi | 4 min read | 19 Aug 2024, 06:45 AM IST



Sebi chairperson Madhabi Puri Buch. (Photo: PTI)

SUMMARY

Under Madhabi Puri Buch, India's market regulator SEBI has initiated a record number of investigations in FY24, driven by a buoyant equity market, increased retail participation, and advanced technology for supervision.

Mumbai: India's market regulator launched the most investigations in a single year in FY24, in current chairperson Madhabi Puri Buch's second full fiscal in charge (Buch took the position in March 2022).

The count of 342 cases, as per the Securities and Exchange Board of India's (Sebi's) latest annual report, is the highest in nearly three decades, a Mint analysis showed. The previous highest was 245 investigations initiated in FY17 under the chairmanship of U.K. Sinha.

Experts suggested a buoyant equity market and higher retail participation—especially in derivatives—could be among the reasons for increased violations, even as greater use of technology for supervision by the regulator and creation of more investigative departments within **Sebi** have resulted in higher, and more nuanced investigations.

The rise in violations

Sebi, along with the National Stock Exchange (NSE), has acknowledged an increase in retail participation in equity markets. Additionally, the regulator has also been raising concerns over the surge in retail participation in the derivatives (futures and options) market. As a consequence, there has been an increase in market violations, experts said.

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"A very large quantum of retail flows has also kept markets elevated, oblivious of the geopolitical risks the world is facing," said Ketan Dalal, managing director of Katalyst Advisors. "In this context, cases of front running and insider trading are more likely to have happened or suspected to have happened and increase in Sebi investigations seem more a consequence of that."

A majority of Sebi probes are to trace market manipulation and violation of insider trading norms.

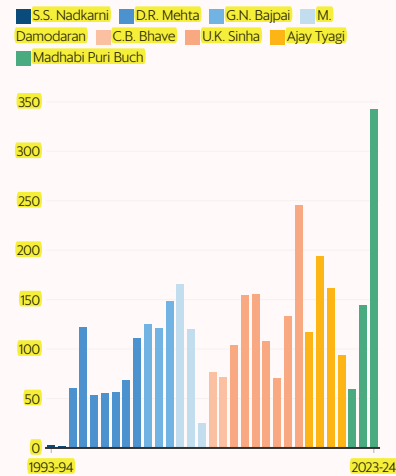
Data showed that investigations against market manipulation were steadily increasing. There were 38 such investigations in FY22, and 54 in FY23, before the number hit 160 in FY24.

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That apart, investigations into insider trading kept growing. During former chairperson C.B. Bhavé's tenure, Sebi took up 24 investigations into insider trading in FY09 and FY10.

This went up to 132 during former chairperson U.K. Sinha's tenure (2011-17). Comparatively, Buch's tenure so far has had 277 investigations into insider trading.

Sebi investigations initiated and completed over the years, by incumbent chairperson



Investigations completed also include cases from previous years.

Source: Sebi annual reports • [Get the data](#)



What's pushing more investigations

Legal experts said that an artificial intelligence-based analytics platform and other technology tools could be helping monitor the large volumes of data that is being generated due to the surge in retail investors.

"The rise in investigations initiated by Sebi, particularly in areas of market manipulation and insider trading, reflects both adoption of advanced

sophisticated technologies and surveillance systems by Sebi and the influx of new retail investors in the post-covid market landscape," said Mohammad Kamran, partner of international disputes resolution and investigations at law firm Nishith Desai Associates.

Others pointed to newer departments within Sebi as a reason behind more focused supervision.

Tomu Francis, partner at law firm Khaitan & Co, said that new verticals in investigation departments of Sebi could be bringing in finer areas under their investigation. He cited the example of the Corporate Finance Investigation Department (CFID), which was not a separate department earlier.

"Based on data analytics, front running is easier to detect and prove. So, those numbers may have increased. But other frauds like unfair trade practice, insider trading are relatively more nuanced," said Francis.

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Meanwhile, Dalal of Katalyst Advisors believes Sebi's surveillance and investigation backbone has also been strengthened significantly and is backed by more technology. That has possibly made the depth and quality of investigation more robust.

However, he cautioned that the regulator should not go overboard since that could possibly discourage investors.

Regulator-plus

Legal experts suggested that a wider array of institutions monitoring market movements could be a possible reason for an increase in the investigations.

For instance, the stock exchanges have been asked to identify market anomalies and bring them to the regulator's attention. Even other market institutions like brokers and asset management companies have been asked by Sebi to supervise and report suspicious fraudulent activities.


"The supervision by the bourses and the regulator on its own into the market behavior anomalies has been going on for a few years. But there is a lag effect. So, this year, one can see big numbers," Francis from Khaitan said.

While the reports over 10 years showed a steady increase in the investigations initiated, the number of investigations completed was stagnant. Data in the annual reports shows that Sebi concluded an average 150 investigations per annum in the past decade.

Experts suggested an increase in the regulator's operating capacity may

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2025.

Some former Sebi chairpersons had similar numbers, but their tenures were longer in Buch.

Her predecessor [Ajay Tyagi](#) initiated 566 investigations during his tenure —excluding the 59 probes in FY22 when his term ended in February 2022.

Former chairman [D.R. Mehta](#), who enjoyed a tenure of seven years, took up only 525 investigations between 1995-96 and 2001-02.

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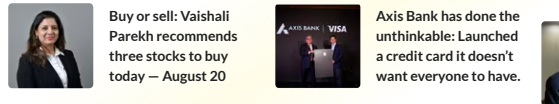
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