
THE SILENT MANIPULATOR: INSIDER TRADING & SECURITIES MARKET

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ABSTRACT

Insider Trading is the buying and selling of a security of a company by individuals that own material, information that is non-accessible to the public with regards to the company's inner workings. This includes stocks, or certain options by the corporate insiders and their associates based on the company's firm.

"The securities laws use 'insider' in different ways," said Marc Fagel, a lecturer at Stanford Law School and former U.S. Securities and Exchange Commission (SEC) regional director. *"There are statutory insiders (officers, directors, 10% shareholders) who have certain legal duties, but 'insider' for insider trading purposes is much broader."*

Corporate Insiders are those who are employed with the firm (as executives, directors, or sometimes rank-and-file employees) or those who have privileged access to the company firm's inner circle (such as large shareholders, consultants, accountants, lawyers, etc.) giving them access to valuable information.

Through this paper we will look into the very concept of insider trading and its foundations, illegal vs legal forms while focusing on ethical and economic consequences of information disunity, how insider trading compromises the standard of the playing field which can lead to undue advantages for the informed individuals and potential deformity in the markets.

Keywords: Insider trading, Corporate Firms, Securities, Valuable Information.

Research Questions

1. How did Insider Trading evolve through time?
2. Comparative study of laws regulating insider trading in securities market around the world
3. Is the SEBI doing enough to apprehend invisible hands of insider trading in Indian stock markets?
4. How insider trading influences stock markets?
5. Does information ambiguity create a perfect cover for insider trading in financial markets?
6. What are the various robust corporate initiatives that help in preventing insider trading in financial market and holding major corporations accountable?

Chapter 1- Introduction

Firstly, let us understand what is “Insider Trading.” It is considered the buying and selling the securities of a company for example its stocks or other relevant important options, by individuals who have access to such material, these materials usually are non-public information about the company. This practice is generally considered illegal as it involves using confidential information that would help in gaining unfair advantage over other investors. This hampers market fairness as well as investor confidence.

"Insiders" include the company's officers, directors, certain staff members, several consultants, and some stockholders (as well as their families). Insider trading regulations apply to insiders and have an impact on the purchase and selling of company stock.

Transactions based on advance knowledge of a company's discovery of a rich mineral ore (**Securities and Exchange Commission v. Texas Gulf Sulphur Co.**), an impending dividend cut by the board of directors (**Cady, Roberts & Co.**), or an unexpected rise in corporate expenses (**Diamond v. Oreamuno**) are well-known instances of insider trading.

If we look at it on paper it seems simple that being “Insider Trading” is considered unethical

and illegal and should be prohibited and penalised. However, it is not so simple but rather a complex one for instance there are certain insider transactions which put it simply are 100% legal and perfectly fine.

To understand what exactly constitutes as “Insider Trading” we first need to understand who are the ones who are called “Insiders” and “Material, non-public information”

According to Fagel “It can be anyone with a duty to the company—a low-level employee who is not a statutory insider still has a duty not to trade stock on non-public information; a temporary insider (like a company's outside lawyers and accountants) who receives non-public information has a duty not to trade.”

- ***Insiders***

- Corporate insiders: Officers, directors, and employees of a company.
- Owners owning more than 10% of a company's securities are considered significant shareholders.
- Temporary insiders: Professionals who work for the company, such as attorneys, accountants, consultants, or others, who obtain significant, confidential information under a duty of trust and confidence.
- Individuals who obtain such knowledge from insiders: Individuals who obtain significant, confidential information from an insider and are aware—or ought to be aware—that the information should not be utilized for financial gain.

- ***What can be considered as “Material”?***

Anything that could significantly influence an investor's choice to purchase or sell a security is considered material information. The following are some instances of subjects discussed that resulted in SEC enforcement actions:

- a. Upcoming mergers or acquisitions
- b. Significant changes in financial performance

- c. New product launches or regulatory approvals
- d. Major changes in senior management

Early common law in the US allowed insiders to trade a company's stock without disclosing insider information. But during the past thirty years, a sophisticated federal ban on insider trading has become a key component of contemporary U.S. securities law. Although enforcement levels still differ significantly between nations, other nations have progressively followed the U.S. trend.

In insider trading timings are very important before information becomes public or well known it is illegal and unfair to trade on it. It is only when the news of the said information is provided to the masses it is feasible and legal and to ensure that various laws have been put forth by various nations.

Chapter 2: The Historical Background of Insider Trading

The first ever case of an Insider Trading or malpractice of sharing crucial information of an organisation can trace its routes to the United States of America, where in 1904 shareholders had discovered that thousands of dollars were missing from the "*Lillooet Gold Dredging Company*"

Where one "Hamilton" who had access to the internal documents of the company had argued about the stolen money and that she in fact was not responsible for stealing it, on the contrary it was the company's general secretary.

This is one of the oldest and relevant cases of Insider Trading back then Insider Trading was neither immoral or unethical something that over the recent years is frowned upon.

Similarly in the Republic of India insider trading was mostly unrestricted for the simple reason no one paid much heed and that there was no regulation this went on for nearly 125 years up until 1970s. one of the early attempts to put a halt on insider trading was the Thomas Committee of 1948 which recommended that certain provisions under the Companies act of 1956 namely sections 307 and 308 which focused on the various revelation by directors and managers but alas to no avail as it proved ineffective in stopping insider trading.

Insider Trading can be considered a double-edged sword in a way for its role and function. On one hand it can be considered a tactic before the establishment of modern laws of acquiring relevant information about a company through a simple transaction to keep up with the larger and more dominant companies. However, it can also prove to be an unethical means through which it gives the opposite party unfair advantage about another company when its innerworkings are considered sacred.

According to popular academic and American writer *Henry G. Manne* who argued that to a certain extent insider trading should in fact be allowed, his reasoning was that how the stock market was supposed to function vs. how it actually operates and the fact before the establishments of legislations such as SEC (Securities Exchange) Act of 1934. He argued that in terms of history insider trading was considered a form of business practice which never truly posed any significant harm. *Manne* even went on to argue that the restrictions posed by the American legislation Securities Exchange Act of 1934 should be abolished or at most changed. Keeping this view in mind many are of his followers and economists are of somewhat similar opinion stating that the concept of insider trading laws are “ambiguous” by misguided bureaucrats and officials who don’t truly understand how the stock market actually work.

This also has led some economists and academics to put forth their own work to weaken current legal legislations and insist American Courts to interpret the concept.

In short *Henry G. Manne* was of the opinion that in terms of business and economics the question of “morality” was never a question that was ever brought forth and hence cannot be considered a serious topic for debates in terms of morality unlike murder or rape. According to him gains and progress was more valuable and important hence in terms of business practice and market competitiveness insider trading was in fact a good phenomenon, since many were arguing morality without appreciating the benefits that insider trading brought towards the corporations.

Even the common law approach held headfast that prior to 1900 the American courts unanimously ruled that Directors in fact did not owe any duty toward the shareholders while dealing with corporation shares even if the shareholders had possession of material non-public information. In short, the directors and its officials had a duty towards the company and company alone not to the shareholders.

- ***THE CHANGE IN POINT OF VIEW***

Various economists and legal experts immediately argued the ethical and moral aspects of insider trading such as historian and legal scholar *Henry Osborn Taylor* in 1905 who was of the opinion that any and all insider trading transactions are “eminently unfair” and “of questionable propriety.”

The idea of insider trading like mentioned before was always questionable and its morality was always put into question particularly its after effect in the early years namely 1896 a judge and treatise writer himself was one of the early believers that insider trading as a practice can often times lead to a corporation taking wrong initiatives and putting their needs and profit ahead which would in turn harm the interests of shareholders.

One of the most important landmark judgements of the United States *Oliver v. Oliver* a case of 1903 in the state of Gorgia is one of the key rulings in the USA which rightly recognised that insider trading is a clear violation of fiduciary duty stating that non-public information was to be considered a “quasi asset” of the corporation and thus not to be given out unless properly declared to the public.

A director should under no circumstances should ever sell or buy any intel with regards to a company’s inner circle which has not been made public and all the shareholders must have an equal say in the information becoming publicly available or not.

Even in the Republic of India the concept of insider trading was well established and plans were on its way for curbing it through effective enforcement of laws. The SEBI (Securities and Exchange Board of India) have taken active steps to prevent insider trading.

Under section 30 read with section 11 of *Securities Exchange Board of India Act, 1992* and later on *Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992* which is now replaced by the *Securities Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015* are some prominent Indian legislations that focus on preventing insider trading and malpractice.

Chapter 3: Law Regulating insider trading in the securities market

The Securities market is one of the most vital mechanisms within any economy and all nations have some policy which would benefit them and regulate the outgoing and intaking of profits and investments it is responsible for facilitating the effective allocation of credits amongst investors and the entities seeking funds.

A well-regulated and transparent securities market is crucial for the growth of then economy and progression of the nation.

Different Nation has its own set of legislations and institutional bodies that are responsible for insider trading in the securities market. Some of the most prominent markets in the international scale are:

- *The United States of America*

The USA consists of two of the largest stock exchanges in terms of market capitalisation namely New York Stock Exchange and NASDAQ. The country also ranks first in the world by market capitalisation. As such being in the spotlight insider trading regulating laws are very important.

The first legislation passed for curbing insider trading was in the year 1933. The US congress had passed the **Securities act of 1933** later **the Securities and Exchange Act of 1934**.

The Legislations were formulated with the intention to increase the transparency for the investors as well as enforcing due diligence and obligations on the share borrowing companies. Of course, came the most important legislation that being **Securities Exchange Act of 1934** or simply the SEC which is a significant improvement in terms of boosting investor confidence as well as stimulating the economic health.

Under the SEC insider trading has been defined as “*whenever it shall appear to the commission that any person has violated any provision of this title or the rules or regulations thereunder by purchasing or selling a security or security-based swap agreement... while in possession of material, non-public information...*” (SEA, 1934).

In simpler words this means if any individual is found to have access and acts upon the non-public information can be held liable for insider trading. This includes corporate officers, directors, employees of the company, friends, business associates, family members, government employees, and other individual who can take advantage of confidential information of the company's inner circle.

It should be noted that the members of the U.S congress are exempted from this legislation.

The penalties for insider trading under this legislation include maximum of twenty (20) years of prison time along with a fine of \$5 million dollars, additionally the fines have increased in the Sarbanes-Oxley Act of 2002.

- ***People's Republic of China***

Being one of the largest economies and a big competitor in the securities market. The People's Republic of China has two major stock exchanges namely: Shanghai and Shenzhen Stock Exchanges. After the U.S, China comes second in terms of market capitalisation.

The China Securities Regulatory Commission (CSRC) governs China's securities market. China's first major step in banning insider trading came about with the Establishment of Securities Companies with Foreign Equity Participation Rules. Their case remains an interesting one since China's economy has fast-forwarded so much that now their main aim is to basically catch up in terms of insider trading regulation. As per popular opinion in 2005, Insider trading in China is widespread up to 80%.

Similar to the U.S members such as directors, managers, board members, shareholders, employees, staff of the CSRC, and other persons specified by the securities regulatory authority under the State Council are forbidden from insider trading or tipping as well as procurement.

In China insider trading is defined as “...*information that is not made public because, in the course of securities trading, it concerns the company's business or financial affairs or may have a major effect on the market price of the company's securities*” (Huang, 2005).

Punishments can include fines which may extend up to five times on an event when the case of insider trading is serious enough the convicts can face up to prison time of 10 years and also be charged with criminal offences. China is also aims to follow the path of the United States and enforce model law for better insider trading regulation.

- **Japan**

Tokyo Stock exchange takes the place for the third largest stock exchange after the U.S and China.

1988 was the year where Japan passed its first ever legislation to curb insider trading the name of the law was **Financial Markets Abuse Act** which is monitored and enforced by the Japan's **Financial Services Agency (FSA)** along with the **Securities and Exchange Surveillance Committee (SESC)**.

Japan had faced arguably one of its most embarrassing scandal in terms of insider trading in 1989 which then called for a more strict and better enforcement for insider trading regulation.

Japan's insider trading law is based on a doctrine called "access" doctrine. This doctrine puts emphasis on individuals who possess information such as employees or any persons who are tipped by the said insiders.

The penalties included under the **Financial Markets Abuse Act** enforces strict penalties with regards to the regulation of insider trading. A maximum of three (3) years in prison and fine up to three (3) million Japanese yen (JPY) which is roughly about 17,80,000 - ₹17,86,000 INR or \$18,700 - \$18,800 USD for insider trading convicts.

In Japan insiders are those who has knowledge of material information about the corporation's or company's inner workings, the said material information is not made public. The definition includes the directors, employees, shareholders, and government regulatory supervisors.

While tipping on its own is not considered a crime in Japan it is well established that if tipping leads to abetment to illegal insider trading will be subject to Japan's general criminal law. To this day Japan keeps on working to improve its insider trading laws.

- ***The United Kingdom***

The UK comes fourth in the world of market capitalisation. The London Stock exchange is the fourth largest exchange in world of market capitalisation.

The Financial Services Authority or simply the FSA is responsible for regulating insider Trading in the United Kingdom. The primary focus of the FSA is to make sure stock markets are orderly and just.

While insider trading was long declared illegal in the 1980 in the United Kingdom, the FSA has had its fare share of struggles to convict people who partook in insider trading and even now to a certain degree still lacks behind the United States of America in terms of enforcement and proper execution. However, to circumvent this the Financial Services and Markets act of 2000 a more stringent and specific guidelines have in fact been laid down. **(FSA.gov, 2008).**

According to the United Kingdom an insider is anyone who has inside information. According to them it can be an employee, a member of management and of course a shareholder.

According to the U.K insider trading as a criminal activity or when a friend is tipping someone of the inner circle of the business. The definition of insider trading is *“information that is not generally available and that a reasonable investor would use to help them make investment decisions. It is also information that, if generally available, would be likely to significantly affect the price of an investment”* **(FSA.gov, 2008).**

Punishment in the United Kingdom for market manipulation and insider trading is maximum of seven (7) years with unlimited fine. Along with this a multitude of civil penalties can be included.

FSA is currently focusing in refining itself and impose harsher punishments.

- ***Republic of India***

India has two major stock exchanges: firstly, Bombay Stock Exchange and secondly

National Security Exchange of India.

1992 was the year when India enacted the Securities and Exchange Board of India (SEBI) for regulating market and introducing insider trading laws. However, it took 17 years to realise that the term “insider trading” did not simply mean “insiders within the company” and had a deeper and detailed meaning. There was a humbling incident in the 2010 where SEBI had completed cases pertaining to insider trading but never did once convict any insiders for criminal activity.

SEBI defines insiders as *“any persons including corporate officers, directors, employees, friends, business associates, family members, persons and other tippers with inside information that can influence stock prices” (SEBI Act No. 15, 1992)*. SEBI also mentions that *“no insider shall—either on his own behalf or on behalf of any other person to deal, communicate, and counsel a person to directly or indirectly sell securities with unpublished price sensitive information.”*

Penalties for insider trading in India includes fines on profits up to three times and depending on the severity of crime jail time from 1 year to all the way to 10 years.

India is unique when it comes to insider trading laws:

1. The family members of directors or the officer who owns the securities of the director must disclose any and all change in the securities holding to the public.
2. India has something called a compounding process and consent process, essentially it allows those who are guilty of insider trading to pay fines and fees instead of going through a criminal trial and possible prison time.

- ***Federal Republic of Germany***

Germany’s major stock exchange is the Deutsche Borse.

Before the 1970 Germany as such did not have any regulations for insider trading. This however changed in the year 1994 with the passing of the Securities Trading Act, or Wertpapierhandelsgesetz, which prohibited trading on any private information of any corporations by the insiders. However, there was another problem with this legislation

that being reporting on 2002 the act was amended to now include mandatory reports for the trades.

Currently under this legislation insiders are prohibited *“from taking advantage of their knowledge of inside information to acquire or dispose of insider securities for their own account or for the account or on behalf of a third party, disclosing or making available inside information to a third party without authority to do, and recommending a third party, on the basis of their knowledge of inside information, to acquire or dispose of insider securities” (Securities Trading Act, 1998).*

Adding to this *“A third party who has knowledge of inside information shall be prohibited from taking advantage of that knowledge to acquire or dispose of insider securities for his own account or for the account or on behalf of others.”*

Germany doesn't have any classification in terms of insiders it simply views them as individuals who have the inside knowledge of a company and may use its assets or information for personal gain without making such information known to public. The German equivalent to the SEC is the Bundesanstalt für Finanzdienstleistungsaufsicht, or simply the BaFin.

- **Swiss Confederation**

The Swiss Confederation consists of SIX Swiss exchange.

In 1988 Switzerland passed its first ever insider trading law, in 2007 the act was revised and with that came the **Federal Act on the Swiss Financial Market Supervisory Authority**. This was a big change since it combined the Federal Office of Private Insurance, the Swiss Federal Banking Commission, and the Anti-Money Laundering Control Authority into the Swiss Financial Markets Authority (**FINMA**). This agency is responsible for the regulation of Swiss markets.

The Swiss law does in fact puts a distinction between primary and secondary insiders.

a) **Primary insiders** are those who *“is a member of the board of directors or the management board, an auditor or an agent of a company limited by shares or a*

company controlling or dependent on such a company, or as a member of a public authority or a public official, or an auxiliary to any of the aforementioned persons”

- b) Secondary insiders** are those “*who receives such information directly or indirectly from any of the persons mentioned in Section 1 and obtains a financial advantage for himself or another through the exploitation of such information” (Swiss Criminal Code).*

The punishment under the Swiss Confederation for insider trading includes fine or jail time up to three years for the primary insiders whereas for secondary insiders it is fine plus one year of jail time.

Chapter 4: Role of SEBI in controlling Insider Trading

Being one of the fastest growing financial markets India is at par with the major economies of the world. But alas it also brings about multitude of financial crimes in the securities market. In order to counter this the Government of India has taken steps and introduced specific legislations and regulations. One such important legislation against insider trading is the SEBI (Prohibition of Insider Trading) Regulations, 2015 along with certain strong provisions under SEBI act 1992.

These legislations attempted to curb insider trading by making disclosure compulsory regarding shareholdings of Directors of any company. Since the introduction of the legislations significant progress in terms of regulations have been made with the emphases on making companies accountable to the investor’s money.

The main aim of the **SEBI (Prohibition of Insider Trading) Regulations, 2015** is to prevent insider trading of all its components by banning trading, communication, procuring “non-published company sensitive data” at the expense of the investors who don’t possess or have access to such information. Promoters are also included in the definition of “Designated persons” above mentioned Regulation under sub regulation 4 of regulation 9. The regulation also covers the Board of Directors or BOD’s, compliance officers, the employees of a listed company, CEOs, and managerial and secretarial staffs or any person who has full access to the non-public sensitive information of the company.

In the context of “Unpublished price sensitive information” or UPSI, The Companies Act, 2013

section 195 which states that, “no person including any director or Key Managerial Personnel of a company shall enter into insider trading”. In layman’s term it simply means that any information be it directly or indirectly about the company and its securities which is not known publicly and can affect the market price of the securities of the company.

The following include in the UPSI:

- a) Financial results of the company.
- b) Dividends which include both interim and final.
- c) Material events in accordance with the listing regulations/agreement.
- d) Change in capital structure.
- e) Mergers and acquisitions.
- f) Change in board or key managerial personnel.

There were also various committees who worked with the sole aim of preventing or abolishing insider trading. Some famous committees include-

i) The Sachar Committee (1979)

According to this committee it was of the opinion that company and its key managerial persons this can include directors as well as other officers that have access to sensitive information that can affect the stock prices through misuse and malpractice. This committee also recommended that Companies Act to incorporate relevant provisions with regards to insider trading and should contain hefty penalties and punishments.

ii) The Patel Committee (1986)

This committee was primarily involved in suggesting amendments in the Securities Contracts (Regulations) Act, 1956 with regards to insider trading and unfair stock dealing. This committee suggested not only stringent fines but also imprisonment, along with recovery of the amount involved in the insider trading from the

individuals involved in the commission of insider trading.

iii) The Sodhi Committee (2013)

The committee was of the opinion that there should be a combination of principle-based regulation and rules for the regulation of insider trading.

iv) The Viswanathan Committee (2017) on Insider Trading

The committee main objectives were reducing the malpractices and prohibit benami transactions. The committee also suggested two codes for regulating and prohibiting insider trading. The first one was regarding minimum standards that listed companies must have for governing insider information. The second code dealt with establishing standards on market intermediaries and such persons who manage price sensitive information.

CHAPTER 5: INSIDER TRADING WITH RESPECT TO CHANGING MARKET ON INTERNATIONAL SCALE

Insider trading has never been a static problem. As financial markets have grown more interconnected, technologically sophisticated, and geopolitically entangled, the ways insiders exploit privileged information have evolved just as quickly. What once played out within the borders of a single market now operates on a genuinely global stage.

The deepening integration of international markets is perhaps the most significant shift. Companies list simultaneously on multiple exchanges, institutional investors trade across jurisdictions in real time, and capital moves freely between economies. This means a single piece of confidential information — say, an unannounced cross-border merger — can move prices on several exchanges at once. Insiders who understand this geography can exploit valuation gaps before the news breaks publicly, a form of arbitrage that national regulators are poorly positioned to catch alone.

Technology has accelerated the problem considerably. Algorithmic and high-frequency trading systems execute orders in milliseconds, meaning even a small informational advantage translates rapidly into profit. Insiders no longer need to make conspicuous trades; they can act before surveillance systems register anything unusual. Encrypted messaging, offshore

accounts, and layered financial instruments further obscure the paper trail, making retrospective investigation genuinely difficult.

The expanding universe of financial products adds another layer of complexity. Rather than buying shares outright — a move that leaves a visible record — insiders increasingly work through derivatives, options, and structured contracts. An insider aware of an impending acquisition might purchase call options whose payoff only becomes apparent once the deal is announced. The trade is legal in form; the intent is not. Distinguishing one from the other is exactly what makes prosecution so demanding.

The scope of who counts as an "insider" has also widened. Insider trading used to be primarily a corporate governance problem — executives, board members, and their associates. Today, advance knowledge of central bank decisions, trade policy shifts, or regulatory changes can be just as lucrative. This draws government officials and policymakers into the frame, expanding both the risk and the political sensitivity of enforcement.

Regulatory responses remain fragmented. Different jurisdictions operate under different legal definitions, enforcement priorities, and resource levels. Some countries maintain sophisticated market surveillance; others lack the infrastructure or political will to pursue complex cases. Without a global authority, enforcement depends on bilateral cooperation — a process that is slow, inconsistently applied, and easily outmanoeuvred by actors who deliberately route trades through shell companies and permissive offshore centres.

Progress is being made. Regulators and exchanges increasingly deploy AI-driven analytics to detect anomalous trading patterns and flag suspicious activity before it disappears into the noise. These tools are genuinely promising — but so are the countermeasures insiders develop in response. The dynamic is iterative, not conclusive.

Ultimately, addressing insider trading in today's markets demands more than better technology or stricter laws in isolation. It requires harmonised international standards, sustained cross-border cooperation, and a corporate culture that treats information asymmetry as a liability rather than an asset. Markets function on trust. Preserving that trust, as the global financial system grows ever more complex, remains one of regulation's most consequential challenges.

CHAPTER 6: IMPACT OF INSIDER TRADING ON STOCK MARKETS

Insider trading quietly corrodes the foundations of financial markets. Though it may appear to be a victimless crime benefiting only a privileged few, its consequences ripple outward — undermining fairness, discouraging participation, and stunting economic growth. Examining it across several dimensions reveals just how far-reaching the damage truly is.

At its core, insider trading distorts how markets process information. Eugene Fama's Efficient Market Hypothesis holds that prices should mirror all publicly available data. When insiders act on confidential knowledge before it reaches ordinary investors, prices shift for the wrong reasons — not through genuine discovery, but through exploitation. The result is a market that looks efficient on the surface while concealing a fundamentally uneven playing field.

Perhaps the most enduring harm is the erosion of investor confidence. Markets depend on a shared belief in fairness. Each time an insider trading scandal surfaces, that belief weakens. Retail investors — already at an information disadvantage — grow reluctant to participate. Some redirect capital toward tangible assets like property or gold, viewing equities as too easily manipulated. Once trust fractures, rebuilding it takes far longer than destroying it did.

Liquidity suffers as a consequence. When investors suspect that better-informed traders are on the other side of every transaction, many simply step back. Fewer participants mean wider bid-ask spreads, higher transaction costs, and a market that struggles to function smoothly. In the most severe cases, capital formation itself is jeopardised — companies find it harder to raise equity funding when the market feels rigged.

Volatility compounds the problem. Insider activity can trigger abrupt, unexplained price movements. The broader market, lacking context, responds with speculation. When the underlying information eventually becomes public, sharp corrections follow. These swings create an environment of uncertainty that long-term investors find particularly damaging, since stable returns become far harder to plan around.

There is also a distributional cost. Insiders convert privileged access into low-risk profits, often at the direct expense of uninformed counterparties. This quiet transfer of wealth from ordinary investors to well-connected ones deepens financial inequality — a consequence that extends well beyond the trading floor.

Emerging economies face a sharper version of this challenge. In markets where regulatory capacity is still developing, insider trading deters the foreign institutional investors who prioritise transparency and legal predictability. The result is reduced capital inflows and slower economic development — a high price paid by those who can least afford it.

Regulators bear their own burden. Detecting and prosecuting insider trading demands sophisticated surveillance, data analysis, and legal resources. Despite this investment, cases remain difficult to prove, particularly where indirect trades or complex instruments are involved. The enforcement cost is real, and it underscores why prevention matters as much as punishment.

Some economists have argued that insider trading speeds up price discovery — but this view ignores the structural harm done to market integrity. Fairness is not a luxury feature; it is the mechanism through which markets earn the participation they need to function. Enforce it rigorously, and markets can fulfil their role. Neglect it, and the cost is paid by everyone.

CHAPTER 7: INFORMATION AMBIGUITY

Markets run on information — but not all information is equal. Some is clear; much of it isn't. When disclosures are vague, forecasts are hedged, or corporate announcements invite multiple readings, the result is information ambiguity. Unlike simple information asymmetry, where one party knows more, ambiguity is about the quality and interpretability of what's available to everyone. And it is precisely in this fog that insider trading thrives.

The most common source of ambiguity is deliberate vagueness in corporate communication. A company announcing a "strategic review" or "operational realignment" has technically disclosed something — but what, exactly? Insiders already know whether that phrase signals a merger, a round of layoffs, or a sale of assets. Public investors are left guessing. The information is simultaneously out in the open and practically useless, a gap insiders can exploit without ever breaching the letter of disclosure rules.

Complex corporate structures deepen this problem. Multinationals operating across subsidiaries, joint ventures, and different jurisdictions produce financial statements that even trained analysts find difficult to parse. Accounting standards differ, language barriers exist, and

risk disclosures are routinely buried in technical language. Insiders embedded in operations understand what these figures actually mean. Most investors are interpreting shadows.

Forward-looking statements introduce a different kind of uncertainty. Earnings guidance, growth projections, and strategic outlooks are by nature speculative — wrapped in legal disclaimers and expressed in language vague enough to mean almost anything. "Moderate growth" tells one investor one thing and another something entirely different. Insiders, drawing on internal data, can cut through this uncertainty and trade with a confidence the public simply cannot match.

Corporate events — mergers, acquisitions, restructurings — are where ambiguity reaches its peak. Rumours circulate, trading volumes shift, and the market senses that something is happening without knowing what. This period between suspicion and confirmation is a window insiders are well-positioned to exploit. Once the announcement arrives and prices adjust, the opportunity has passed — but the gains have already been made.

Ambiguity also complicates enforcement. Regulators must demonstrate that an accused party traded on material, non-public information. But when information is genuinely murky, distinguishing a calculated insider trade from a reasonable interpretation of public signals becomes legally treacherous. An insider who sells shares ahead of bad results can argue they were merely reading the same vague disclosures everyone else had access to. Proving otherwise is rarely straightforward.

Media and analyst commentary compound the confusion further. Different voices interpret the same announcement in contradictory ways, fragmenting market understanding and amplifying uncertainty. Insiders, anchored to primary and verified knowledge, are effectively immune to this noise.

The solutions are structural. Stronger disclosure requirements, clearer reporting standards, and real-time regulatory surveillance all reduce the space ambiguity creates. Investor education matters too — a more financially literate public is harder to leave in the dark. AI-driven market monitoring is increasingly able to detect anomalous patterns even when the underlying information is opaque. None of these is sufficient alone. Together, they narrow the gap between what insiders know and what everyone else can reasonably understand.

CHAPTER 8: CORPORATE GOVERNANCE PRACTICES TO PREVENT MISUSE OF INSIDER TRADING

Rules alone do not keep markets honest. What sits behind effective regulation — and often determines whether it works in practice — is the quality of governance inside the organisations that markets depend on. When corporate governance is robust, insider trading becomes structurally harder to commit, easier to detect, and more costly to attempt.

The starting point is policy clarity. Companies must define, in precise terms, who qualifies as an insider, what constitutes price-sensitive information, and under what conditions trading is permitted. Vague policies create room for wilful misinterpretation. Well-drafted codes — covering blackout periods before earnings announcements, pre-clearance requirements for significant trades, and explicit definitions of restricted persons — remove that room. The goal is not to burden insiders with bureaucracy but to ensure that no one can later claim ignorance of where the line was drawn.

Trading window restrictions are one of the most practical tools available. By designating periods during which insiders simply cannot trade — particularly in the weeks before major announcements — companies neutralise the most obvious opportunities for exploitation. Pre-clearance requirements outside these windows add a second filter, ensuring that even permitted trades receive independent scrutiny before execution.

Board oversight is where governance either holds or fails. Independent directors, free from management allegiances, are positioned to ask the uncomfortable questions that executives might prefer to avoid. Their presence on audit committees — which review disclosure practices, internal controls, and suspicious activity — introduces meaningful accountability at the top. Governance structures without genuine independence at board level tend to function as theatre rather than oversight.

Information barriers, sometimes called Chinese walls, address the problem from a different angle. Rather than waiting for misuse to occur, these internal procedures prevent sensitive data from reaching those who have no legitimate need for it. Separating teams that handle confidential financial information from those involved in trading or investment decisions limits exposure at the source. Access logs and structured digital records of who saw what, and when,

create an audit trail that both deters misconduct and assists investigation if something goes wrong.

Whistleblower mechanisms are underused but genuinely effective. Employees closest to wrongdoing are often its earliest witnesses. Policies that offer real anonymity and credible protection from retaliation convert potential bystanders into active safeguards. Organisations that treat whistleblowing as a threat to manage tend to discover violations through regulators rather than from within.

Technology increasingly supports all of these mechanisms. AI-driven surveillance can scan trading patterns across large datasets, flagging unusual activity — sudden volume spikes ahead of announcements, for instance — far faster than any manual review. What once required months of forensic analysis can now surface as an alert within hours.

Underlying all of this is culture. Policies, committees, and algorithms can be circumvented by people sufficiently motivated to do so. What they cannot easily circumvent is an organisation where ethical behaviour is the norm rather than the exception — where leadership models integrity visibly, and where the cost of cutting corners is understood to be real. Governance, at its best, is not a compliance exercise. It is the institutional expression of a market's commitment to fairness.

CHAPTER 9: CONCLUSION

Insider trading resists simple solutions. It is not merely a matter of individual greed or isolated wrongdoing — it is a structural problem embedded in the way modern financial markets produce, distribute, and act on information. Addressing it meaningfully requires looking honestly at each of its dimensions: market fairness, global regulation, information quality, governance, and the role of technology.

The foundational harm is to fairness. Markets function because participants broadly believe the system gives everyone a reasonable chance. Insider trading breaks that belief. When prices move on information that only a handful of people possess, the signal the market sends is corrupted. Price discovery — the mechanism through which markets allocate capital — stops reflecting collective judgment and starts reflecting private advantage. The damage is not

confined to the trades involved; it spreads into how every participant perceives the market's credibility.

The global dimension has made this harder to manage. Capital crosses borders in milliseconds, and insider information does not respect jurisdiction. A confidential decision made in one country can move prices on exchanges thousands of miles away before any regulator notices. International cooperation has improved, but enforcement remains fragmented. Differences in legal standards, institutional capacity, and political will mean that sophisticated actors can still navigate between jurisdictions to reduce their exposure to consequences.

Information ambiguity adds a further layer of difficulty. Not all insider trading involves clear-cut secrets. Often the advantage lies in knowing how to interpret information that is technically public but practically opaque — a vaguely worded disclosure, a hedged forecast, a rumour that is closer to fact than the market realises. This makes both detection and prosecution genuinely hard. Regulators must distinguish between an informed reading of public signals and the exploitation of confidential knowledge, a line that is rarely as obvious as it sounds.

Corporate governance is the most immediate line of defence. Trading restrictions, independent board oversight, information barriers, and whistleblower protections create friction — they make insider trading more difficult, more visible, and more costly. But governance only works when it is taken seriously rather than performed. Organisations that treat compliance as a reputational exercise rather than a genuine commitment tend to produce the conditions in which violations occur.

Technology cuts both ways. The same tools that allow trades to be executed and concealed at speed also allow regulators to scan enormous datasets for anomalous patterns. AI-driven surveillance is narrowing the window between a suspicious trade and a formal investigation. The race between evasion and detection is ongoing, which means legal and technical frameworks cannot be static — they must adapt continuously.

The realistic goal is not eradication. Some degree of informational advantage will always exist in markets, and the boundary between insight and misconduct will always require judgement to draw. What is achievable is a market environment where the incentives to exploit private information are outweighed by the risk of being caught and the cost of being penalised. That

balance — between deterrence, detection, and genuine institutional integrity — is what fair markets ultimately depend on.

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