CASE ANALYSIS: BALRAM GARG VS. SEBI

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ABSTRACT

The Securities and Exchange Board of India (SEBI) is the Indian government's authorized agency for the "supervision of security markets. SEBI was founded in 1992. SEBI serves several purposes, but the most important ones include market security, developing the security market, and defending the investors' and the market's interest. SEBI is one of the market-regulating agencies under the Ministry of Finance. Like the other market-regulating agencies, SEBI can also maintain and restore the market's integrity and protect the interests of the investors. Like the Securities and Exchange Commission (SEC) in the United States, SEBI can also regulate the market and the participants and control the actions in the market. SEBI also protects insider information and ensures that there is no information asymmetry. The case reached the Apex Court, marking a remarkable change in the course of the proceedings. The court examined the materials and overturned the order passed by SEBI. The court established that SEBI failed to discharge the burden of establishing facts relating to insider trading. This judgment established a significant principle of enforcement of the law related to securities. It is the duty of a regulatory authority to prove offenses beyond reasonable doubt before taking enforcement action against a person or a corporate entity. Due to the emphasis on fair decision-making and due process, this ruling has been called a defining case. It serves as a reminder, and strictly outlines, to the regulators that, while protecting the market and the investor remains critical, the regulator is obliged to bring evidence to the enforcement, as opposed to doing so on the basis of mere assumption. For the market participants, it serves as a reminder of the necessity of compliance and the significance of transparency and trust in the financial market of India.

Keywords: Securities and Exchange Board of India (SEBI), Securities Law, Burden of Proof, Unpublished Price Sensitive Information (UPSI).

LIST OF ABBREVIATIONS

SEBI	Securities and Exchange Board of India
UPSI	Unpublished Price Sensitive Information
SAT	Securities Appellate Tribunal
PIT	Prohibition of Insider Trading

LIST OF CASES

1. Balram Garg vs. Securities and Exchange Board of India
2. SEBI v. Kishore R. Ajmera (2016)
3. Chintalapati Srinivasa Raju v. SEBI (2018)

LIST OF STATUTES

1. Regarding the Securities and Exchange Board of India Act, 1992, communications of UPSI fall under the provisions of Section 12A(d) and (e) and insider trading. SCC Online+2
2. SEBI (Prohibition of Insider Trading) Regulations, 2015, are pertinent to both obligations and prohibitions as well as the definitions of 'Insider', 'Connected Person', and 'Immediate Relative'. SCC Online+1
3. In the context of Balram Garg, the later amendments to the PIT Regulations, which have expanded the definition of 'connected persons', have also been analyzed.

INTRODUCTION

The Balram Garg v. SEBI case is among India's first cases relating to the field of insider trading in securities and is among the first cases in the field of securities law in India. Balram Garg, the former managing director and a promoter of the company, was alleged to have executed a trade of securities for his own benefit or for the benefit of some of his relatives, thereby

allegedly misusing UPSI (Unpublished Price Sensitive Information) (information that is not available to the public and is sensitive to the price of securities of the company) among his relatives.

The allegations followed penalties imposed by SEBI for what Garg claims are violations of insider trading laws. Garg's chief concern revolves around SEBI's classification of his family members as "connected persons." Indian insider trading laws define connected persons as individuals who, because of their relationship with an insider, are believed to have access to unpublic information. SEBI maintained that Garg's family members belong to that category and have traded on that information. Problem Statement

With respect to the allegations of insider trading, the primary issue is whether the circumstantial evidence relied upon by SEBI is sufficient in the absence of any evidence that Garg communicated UPSI to his family members. This also poses the issue of delineating the relationships that qualify as "connected persons" who, by virtue of their relationship with a key insider, are presumed to possess UPSI.

RESEARCH QUESTION

1. Can SEBI regulations use circumstantial evidence as proof for insider trading in cases with questionable timing and trading patterns?

2. For court purposes, how should "connected persons" be defined, especially when considering relatives of the alleged insider who are not personally or professionally linked to the insider?

OBJECTIVES

1. Can SEBI regulations use circumstantial evidence as proof for insider trading in cases with questionable timing and trading patterns?

2. For court purposes, how should "connected persons" be defined, especially when considering relatives of the alleged insider who are not personally or professionally linked to the insider?

METHODOLOGY

This study proposes the following methods of legal research: "Doctrinal Analysis": Study of the relevant provisions of the SEBI Act, 1992[1], and the SEBI (Prohibition of Insider Trading) Regulations, 2015; "Case Law Review": Analysis of the judgments and orders of the Supreme Court, Securities Appellate Tribunal (SAT) and SEBI regarding the extent to which circumstantial evidence in insider trading cases is dealt with, and what is covered under "connected persons;" "Comparative Method": Study of similar cases and the trend of courts in other jurisdictions when establishing the international criteria for insider trading; "Content Analysis": Review of the submissions, the arguments, and the evidence in Balram Garg v. SEBI, the role of the timing and trading patterns, and the status, whether direct or indirect, and the position of the relative; "Impact Assessment": Analyze the effect of the judgment on market behavior, the burden of proof, and the enforcement of regulations.

RESEARCH LITERATURE

1. Aditya Mehrotra, *Critiquing the Evidentiary Burden Jurisprudence vis-àvis Insider Trading Regime in India*, CBCL Blog (May 2, 2023)[2],

The case of Balram Garg v. Securities and Exchange Board of India clarifies the burden of proof in insider trading cases and constrains SEBI from employing circumstantial proof. This case also indicates that the Supreme Court seeks to outline and confine the subjective challenges in cases of insider trading and financial crime. As India promotes itself more and more as a financial centre, it is imperative that as a matter of procedure there is consistency in the role of the prosecution and the burden of evidence in cases of financial crime. This would standardize the approach to the law and prevent the misuse of the law.

Ravi Prakash, Mohit Sirohi & Vishal Jain, "More Likely Than Not": Preponderance of Probabilities in Indian Securities Law, Live Law (June 24, 2025)[3],

Moving on to Balram Garg v. SEBI ("Balram Garg"), in mid-2018, PC Jeweller Ltd. ("Company") was planning a significant buy-back of shares which would likely have impacted

[1] the SEBI Act, 1992
[2] Aditya Mehrotra, *Critiquing the Evidentiary Burden Jurisprudence vis-à-vis Insider Trading Regime in India*, CBCL Blog (May 2, 2023)
[3] Ravi Prakash, Mohit Sirohi & Vishal Jain, "More Likely Than Not": Preponderance of Probabilities in Indian Securities Law, Live Law (June 24, 2025)

the Company's stock price. Balram Garg ("Garg"), the Managing Director of the Company, was the driving force of the plan. However, the buy-back plan came undone when the Company's sole lender, the State Bank of India, refused to provide a no-objection certificate on 7 July 2018. This information was not made public until 13 July 2018 when the buy-back plan was announced to have been cancelled. SEBI recognized this time period as the UPSI Period and Kumar was alleged to have communicated" this UPSI to his close relatives, which included his nephew, niece-in-law and their company, all of whom traded in the Company's shares during the UPSI Period. The case posed the question of whether the trading of the relatives was sufficient to substantiate insider trading, given that there was no evidence of the flow of information.

Harsh N. Dudhe & Pranay Bhardwaj, Evaluating the Standard of Evidence Used in Insider Trading Cases, SCC Times (Jan. 3, 2023)[4],

This case focuses on insider trading allegations against the people who were part of the promoter group of PC Jeweller. The promoter group includes Padam Chand Gupta (P.C. Gupta) who was the Chairman during the relevant time. Balram Garg, the brother of P.C. Gupta, served as the company's Managing Director for the same period. SEBI alleged that Amit Garg, Sachin Gupta and Shivani Gupta, having access to UPSI due to their association with P.C. Gupta and Balram Garg, traded during the relevant period. Considering the facts, SEBI also represented that P.C. Gupta and "Balram Garg, qualified the terms of "connected person" and "insider" as per the SEBI (Prohibition of Insider Trading) Regulations, 2015[5] (PIT Regulations). Insider trading under the PIT Regulations was confirmed by SEBI and the Securities Appellate Tribunal (SAT) for the concerned parties. The Supreme Court, however, reversed the two orders. To determine the liability of the parties for insider trading, the Court was concerned with the following:

Varghese George Thekkel, Insider Trading: What Must the Regulator Prove? Balram Garg v. SEBI: A Case Comment, SCC Times (Aug. 3, 2022)[6],

The Supreme Court of India in Balram Garg v. SEBI was concerned with the burden of proof

[4] Harsh N. Dudhe & Pranay Bhardwaj, Evaluating the Standard of Evidence Used in Insider Trading Cases, SCC Times (Jan. 3, 2023)
[5] SEBI (Prohibition of Insider Trading) Regulations, 2015[5] (PIT Regulations)
[6] Varghese George Thekkel, Insider Trading: What Must the Regulator Prove? Balram Garg v. SEBI: A Case Comment, SCC Times (Aug. 3, 2022)

that the Securities and Exchange Board of India (SEBI) must meet to substantiate a charge of insider trading. SEBI essentially contends that three relatives of the Chairman and Managing Director of a listed company traded the shares of the company's listed shares based on unpublished price sensitive information (U PSI) communicated to them by the Chairman and Managing Director. As per SEBI, the Chairman and Managing Director were found to have communicated UPSI in breach of the provisions of the SEBI Act and SEBI (Prohibition of Insider Trading) Regulations, 2015. In the similar context, the relatives of the Chairman and Managing Director were found to have violated the provisions of the Act and Regulations by trading while in possession of the UPSI.

Historical background

In 2005, PC Jeweller Ltd (PCJ) was founded by Balram Garg and Padam Garg as one of India's leading jewellery retail chains. PCJ completed its IPO and listing on Indian Stock Exchanges in 2012. In April 2018, the shares of the company went through an unusual amount of volatility after the company announced that it was going to undertake a share buyback. Company announcements related to share buybacks are often considered Undisclosed Price Sensitive Information (UPSI) since it directly impacts the stock of the company. Before the buyback was announced and then rescinded, SEBI launched a probe into the transactions done by the relatives of Balram Garg including his brother's wife and nephews, on the grounds of insider trading. The relatives of Balram Garg sold a substantial amount of shares of PCJ before the buyback was rescinded and SEBI argued that the trading pattern indicated that they were privy to UPSI that was related to Balram Garg, who was the Managing Director at the time. In April 2021, SEBI passed an order to impose a penalty on Balram Garg and others for insider trading. As per Balram Garg and the other notice recipients, the appeal against the SEBI order was heard by the Securities Appellate Tribunal (SAT) and they argued that Balram Garg and the traders did not have any direct or indirect communication with UPSI.

Because of personal disputes and disputes over property, the so-called family members were pushed away from him and so did not obtain any inside information about him. SEBI's case rested on circumstantial evidence of trading patterns and timing. There was no evidence to establish that the UPSI was in the possession of or was being communicated by the alleged family members. The SAT, in its order of 2022, provided support to SEBI on the assumption that insider trading was evident from the volume and timing of trades. It held that

circumstantial evidence of insider trading was sufficient to assume the existence of a 'meeting of minds' among the connected entities. In its landmark decision in 2023, the Supreme Court of India overturned the SEBI order and held that the burden of establishing that the accused insider was in possession of or had access to UPSI rested solely on SEBI. UPSI was neither demonstrated to be in the possession of nor communicated by the alleged family members. Insider trading was to be established beyond the balance of probability which had to be supported by clear and credible evidence. The Supreme Court reinforced the tenet of due process and prevented regulatory overreach and demanded evidence of communication of UPSI. The ruling mandated SEBI to revise its definition of "connected persons" in 2024.

Facts:

SEBI started looking into Balram Garg, once MD and key promoter of PC Jeweller Ltd, for allegedly leaking company confidential information before such information was publicly announced. SEBI speculated that due to his position, Garg had knowledge of company's confidential trade and strategic information. It was believed that he communicated the confidential information to his relatives, Sachin Gupta, Shivani Gupta and Amit Garg, who then traded PC Jeweller's shares on the basis of these information.

SEBI observed the trades occurred during a crucial period for PC Jeweller to make important decisions including a now-abandoned share buyback. They speculated the relatives could have used the non-public trade-related information owing to their close ties with Garg. SEBI rounded out their case on the basis that the trades were too timed and patterned to significant trades to be a matter of coincidence.

ISSUES:

As a result of the above, it was further claimed that the managing director and promoter further breached SEBI's insider trading regulations, as these relatives had access to these trades. SEBI's regulations state that as these individuals are "immediate relatives" or "connected persons", they had the presumption to access such trades. SEBI's challenge would be to provide and demonstrate the evidence as per the regulations to show that the managing director communicated these trades to his relatives. Additionally, this issue revolves around the challenge of proving insider trading with the circumstantial evidence of trading that is similar in pattern and timing, without the necessary evidence of communication to support the charge, i.e., an affidavit or a witness.

Law applicable:

Interpretation and application of insider trading laws in India were central to the Balram Garg vs. SEBI case. Key provisions of the SEBI Act, 1992, and the SEBI (Prohibition of Insider Trading) Regulations, 2015 were examined. Section 12A of the SEBI Act makes it illegal for any person to engage in insider trading, including the use of unpublished price-sensitive information (UPSI) to either further their personal interests or the interests of another. The Insider Trading Regulations of 2015 provide comprehensive provisions to identify 'insiders', define 'connected persons', and prohibit the trading and the passing on of UPSI. Regulations provide that trading by, or passing on UPSI to others, is restricted for promoters, managing directors and their relatives and financial dependents.

In its arguments against Balram Garg, SEBI used Regulation 3(1) of the Prohibition of Insider Trading (PIT) Regulations and Section 12A(c)[7] of the SEBI Act to claim Garg, being a connected person and insider, passed on UPSI to his relatives, who traded during the time UPSI was available with Garg but not made public. The legal characterization was not only about the classification of the persons (whether they were 'immediate relatives' or 'connected persons') but also what evidence was sufficient for the claim. Would semi direct evidence, such as similar trading, be enough, or would direct evidence of communication have to be shown?

Argument:

The Balram Garg case underscores the essential balance of protecting the connected persons' right to reputation and the integrity of the stock market. There is no debate against the imperative of guarding the stock market against the dilution and misuse of company confidential information. However, when the case is made merely on trading patterns and timing, regulators such as SEBI must exercise restraint when no definitive evidence is available to showcase that the connected persons indeed relayed the insider information. Just the involvement of family members should not be a license to presume that they had insider information and that they traded and manipulated the market without evidence that SEBI indeed showed that the information was traded and that the family members-controlled trading. The case reflects the need to shield the honest market participants from unfounded allegations that could dramatically impact their standing, reputation, and market participation. SEBI needs to prove direct communication in cases of insider trading using e.g. emails, messages, or

[7] The Prohibition of Insider Trading (PIT) Regulations and Section 12A(c)

testimony to hold anyone answerable. Trading or conducting a business without such solid evidence is unfair and unjust. In determining the status of family members as "immediate relatives" or "connected persons", it should depend on the financial and physical separation of the family members from the insider. The Court was correct to require a higher standard. The requirement reflects the need for a fair and transparent system and for regulation of insider trading. The Court's judgment also underscores the need for clear evidence to support insider trading and to protect the interest of individuals against the trading regulation system on the basis of mere assumptions.

Judgement:

The Supreme Court's judgment in Balram Garg vs. SEBI was a landmark judgment and established critical principles for the enforcement of insider trading provisions in India. SEBI was unable to prove that Balram Garg, the insider and Managing Director, had shared unpublished price sensitive information with his relatives, who were trading on that information, without adequate evidence. The Court also stated that to prove insider trading, it was insufficient to rely on circumstantial evidence of trading and the timing of the trades. In addition, the Court required email evidence, message records, or testimony.

The Court examined whether Garg's relatives could be categorized as "immediate relatives" or "connected persons" as per SEBI's regulations. The Court concluded that they were financially independent and estranged from Garg and were therefore outside the presumption of having UPSI.

The Court, therefore, annulled the orders of SEBI and the Securities Appellate Tribunal (SAT) and held that SEBI could not logically carry the burden of proof. This landmark judgment raised the burden of proof for insider trading cases for regulators, necessitating them to prove the leak of UPSI in a more direct and conclusive manner, and restricting the presumed insider scope. The judgment plays a vital role in safeguard the right of an individual from being presumed guilty of a crime for which there is no proof, and simultaneously creates a balance to ensure that the necessary integrity of the market is upheld.

CONCLUSION:

The Balram Garg vs SEBI case is now a historic Supreme Court case in India that transformed how allegations for insider trading are approached in India. The case raised the fundamental question of how to define the standards for the evidence that must be brought to prove insider

trading (one of the heaviest offenses within the realm of securities law). Balram Garg was the Managing Director of PC Jeweller. The Securities and Exchange Board of India (SEBI) accused Garg of conveying Unpublished Price Sensitive Information (UPSI) to several of his family members. These family members were believed to have traded the price sensitive information prior to the company's buyback announcement in 2018. SEBI opined that the timing and trading behaviors of these family members were consistent with the described insider transactions, therefore SEBI assumed that they were also abusing the misuse of the information. Once the case reached the Supreme Court, the Justices examined SEBI's evidence in detail. The Court held that in the absence of insider trading evidence (besides similar trading behaviors or similar timing), circumstantial evidence is not sufficient to satisfy the burden of proof that is required for such a serious offense. To charge someone with such a serious offense, the regulators are required to present the evidence such as emails, call records, messages, and other evidence of the insider's conversations, in person or otherwise, with a clear and direct linkage regarding the transfer of the sensitive information.

Also central to the ruling was the definition of an 'insider' as per the Court. SEBI classified Garg's relatives as 'immediate relatives' or 'connected persons' and presumed that they must have been provided access to UPSI by Garg. The Court differentiated and stated that having family ties does not mean they necessarily had access to insider information. This ruling requires SEBI to prove that relatives are provided UPSI by the insider. This ruling has an enormous bearing on Indian securities regulations. In the absence of definitive proof of insider trading, the Supreme Court has set the burden of proof higher, and the allegation of insider trading cannot be done on the basis of conjecture. This ruling provides considerable relief to those family members who conduct business, as they are protected from allegations of insider trading that are not substantiated and are based on conjecture. This ruling also clarified that the burden of proof for the allegation of insider trading is on the regulators and not on the accused. Due to this ruling, the Garg vs SEBI case has provided immense value in the justification of regulations pertaining to the financial markets and the right to protection of markets against insider trading as well as the right to safeguard" the integrity of one's profession against unsubstantiated allegations.

REFERENCE

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