



Report on Fair Market Conduct

Securities and Exchange Board of India (SEBI) constituted a Committee on Fair Market Conduct in 2017 under the Chairmanship of Shri T.K. Viswanathan. The committee submitted its report in August 2018. The Committee was mandated to review:

- The existing legal framework that deals with market abuse to ensure fair conduct in the securities market.
- Review the surveillance, investigation and enforcement mechanisms being undertaken by SEBI to make them more effective in protecting market integrity and the interest of investors from market abuse.

Key Proposals

- Rather than relying on the provisions of Companies Act, the committee has recommended that the **SEBI Act should be amended to allow SEBI to prosecute entities that manipulate their accounts.**
 - Till now, SEBI had to invoke its insider trading laws to press charges against perpetrators.
 - This is a good move considering that SEBI has been a more proactive regulator than the Ministry of Corporate Affairs.
- The **definition of fraudulent trades** under the Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets (PFUTP) rules has been widened to include **front-running, orchestrated trades, circular trading and benchmark fixing.**

NOTE: SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, were enacted in 1995 which empowers SEBI to investigate into violations committed by any person including an investor, issuer or an intermediary associated with the securities markets.

- Whistle-blowers play a key role in alerting regulators to malpractice and the report recommends that SEBI, rather than the Central Government, be empowered to grant immunity to whistle-blowers.
- The panel has suggested that companies maintain electronic records of all price-sensitive information shared with outsiders and lists of those related to insiders as this can help in detecting cases of insider trading.
- However, a **couple of recommendations could be considered as a drawback** as they could result in **regulatory overreach.**
 - One is the suggestion to characterise trading by market players in excess of their 'verifiable financial resources' as the fraud.
 - The other is to grant SEBI powers to intercept calls.

Background

- In India, the Securities and Exchanges Board of India (SEBI) is mandated to protect the interests of investors in securities and to promote the development of and to regulate the securities market.
- However, this has had little effect on the conduct of market players, with scams, frauds and accounting manipulations cropping up all too frequently.

- Also, developments in technology have led to increasing cyber threats that could lead to the manipulation of markets.
- These changes have led to the need to review the securities law dealing with market abuse and the methods used for detecting, investigating and carrying out enforcement against market abuse.

PDF Refernece URL: <https://www.drishtias.com/printpdf/report-on-fair-market-conduct>

