PURPOSE IS NO DEFENCE: A CASE COMMENT ON SEBI V. RAJEEV VASANT SHETH (2026 INSC 826)

by

Maglin M Raja[1]

Case commented on: *Securities and Exchange Board of India v. Rajeev Vasant Sheth & Ors.*, 2026 INSC 826 (Supreme Court of India, 11 August 2026, Sanjay Karol and Nongmeikapam Kotiswar Singh JJ.)

ABSTRACT

In *SEBI v. Rajeev Vasant Sheth*, the Supreme Court set aside a Securities Appellate Tribunal order that had accepted that the promoters of Tara Jewels Ltd sold shares to prevent the company's accounts being classed as non performing. The Court held that under the Note to regulation 4(1) of the 2015 Insider Trading Regulations a person who trades while in possession of unpublished price sensitive information (UPSI) is presumed to have been motivated by it, and that the reasons for trading and the application of proceeds are irrelevant. It restored disgorgement of about Rs 1.38 crore of loss avoided, upheld the code of conduct penalties and reduced the Chairman's penalty under section 15G from Rs 25 lakh to Rs 10 lakh. This comment argues that the decision gives a clear compliance rule and rightly confines *Abhijit Rajan* to the 1992 regime, but that it rests heavily on an explanatory Note, does not reconcile "possession" with section 15G's "on the basis of", gives no illustration of an unenumerated defence, and leaves unexplained why circumstances matter to penalty but not to liability.

ISSN: 2583-2794

Keywords: insider trading, unpublished price sensitive information, regulation 4(1), rebuttable presumption, legitimate corporate purpose, disgorgement, SEBI Act.

[1] Research Scholar, Bhagwant University, Ajmer, Rajasthan.

Indian Journal of Law and Jurisprudence | Licensed under Creative Commons — https://creativecommons.org/licenses/by/4.0/ | DOI: 10.5281/zenodo.24321672 | Title: Purpose Is No Defence: A Case Comment on SEBI v. Rajeev Vasant Sheth (2026 INSC 826)

I. Introduction

Insider trading law turns on what the regulator must prove. One answer treats the wrong as trading *because of* inside information, so that purpose matters. The other treats it as trading *while holding* such information, so that purpose matters only through narrow defences. *SEBI v. Rajeev Vasant Sheth* adopts the second for the 2015 Regulations.[2] The question is acute in India because promoters often hold both inside information and a need to raise cash for the company, and the Securities Appellate Tribunal (SAT) had long been receptive to a "legitimate purpose" explanation. The earlier authorities were not uniform. One commentator's table of rulings lists Hindustan Lever (SAT, 1998) and Dilip Pendse (SAT, 2006) as treating intent as irrelevant, Rakesh Agrawal (SAT, 2003) and Abhijit Rajan (Supreme Court, 2022) as allowing purpose to be considered, and Balram Garg (Supreme Court, 2022) as treating purpose as not relevant.[3]

II. Facts and Procedural History

Tara Jewels Ltd, a listed jewellery company, was later admitted to liquidation by the National Company Law Tribunal on 30 July 2019. For the quarter ending September 2017 it reported a loss of Rs 166.80 crore against Rs 6.62 crore in the previous quarter, and sales fell by about 69 per cent. During the UPSI period, 2 October to 29 November 2017, Mr Rajeev Vasant Sheth, Chairman and Managing Director, sold 30,93,948 shares, about 12.56 per cent of the company, and a further 29,75,000 shares. His daughters, Ms Aarti Sheth and Ms Divya Sheth, promoters and Vice Presidents, sold their entire holdings of 1,14,440 shares each. Together they avoided a loss of about Rs 1.38 crore.[4] The proceedings began with an impounding order cum show cause notice issued by SEBI on 4 September 2020, well before the Whole Time Member's final order.[5]

On 24 May 2021 the Whole Time Member (WTM) of SEBI found all three guilty of insider trading. He restrained the father for one year and the daughters for six months, directed disgorgement of the loss avoided with interest at 12 per cent from 30 November 2017, and imposed penalties under section 15G (Rs 25 lakh on the father, Rs 10 lakh on each daughter)

[2] *Securities and Exchange Board of India v. Rajeev Vasant Sheth*, 2026 INSC 826 (Supreme Court of India, 11 August 2026), Civil Appeal No. 4905 of 2022, also reported as 2026 LiveLaw (SC) 787.

[3] Prerna Roy, 'Insider Trading: Does "Niyat" Determine the "Niyati"?' (Vinod Kothari Consultants, 14 August 2026) <https://vinodkothari.com/2026/08/insider-trading-does-niyat-determine-the-niyati/> accessed 16 November 2026.

[4] *Rajeev Vasant Sheth*, paras 2.1 to 2.4.

[5] 'Purpose of the trade is irrelevant once UPSI possession and trading are established: Supreme Court' (SCC Online Blog, 13 August 2026) <https://www.scconline.com/blog/post/2026/08/13/sc-purpose-of-trade-irrelevant-insider-trading-upsi/> accessed 16 November 2026.

and under section 15HB for breach of the code of conduct (Rs 5 lakh and Rs 1 lakh each). On 19 April 2022 the SAT allowed the appeal. It accepted that the risk of the company being downgraded to a non performing asset proved innocence within the proviso to regulation 4(1), and noted that closing prices on 29 and 30 November 2017 hardly differed. SEBI appealed under section 15Z.[6]

III. Issues and Decision

1. Whether a person trading in possession of UPSI may defend the trade by showing that the proceeds served a corporate purpose, or that no profit was made.
2. Whether such a defence is of a nature similar to those in the proviso to regulation 4(1).
3. Whether *Abhijit Rajan* governed, and what relief followed.

Sanjay Karol J, for the Bench with Nongmeikapam Kotiswar Singh J, allowed the appeal. Section 12A of the SEBI Act prohibits insider trading, section 15G penalises it, and section 11B empowers SEBI to direct disgorgement of wrongful gain made or loss averted.[7] Regulation 4(1) prohibits trading while in possession of UPSI, lists six defences introduced by the word "including", and carries a Note stating that such trades are presumed motivated by the information and that the reasons for trading and the purposes to which proceeds are applied are not intended to be relevant.[8] It was undisputed that the respondents held UPSI and sold large parts or the whole of their holdings. Hence the purpose of the sale was irrelevant, and little or no profit was of no consequence.[9]

On the proviso, the Court held that *ejusdem generis* cannot apply because the specific defences follow the general word "including", but that "including" shows the list is not exhaustive and that further defences must be of the same or similar nature.[10] *Abhijit Rajan* was distinguished on two grounds: its transactions of 2013 fell under the 1992 Regulations, which had no Note, so that the use of proceeds could then be considered; and the shares there were sold before a price rise, whereas here the price fell.[11] The Court restored the disgorgement order under the Explanation to section 11B, upheld the section 15HB penalties, and reduced the Chairman's section 15G penalty to Rs 10 lakh, the minimum imposed on his daughters, taking a "cumulative view" of the facts.[12] It added that the SAT's reliance on a "legitimate

[6] *Rajeev Vasant Sheth, paras 3 and 4*.
[7] Securities and Exchange Board of India Act, 1992, ss. 11B (Explanation), 12A, 15G and 15HB.
[8] Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, reg. 4(1) and Note.
[9] *Rajeev Vasant Sheth*, para 11.
[10] *Rajeev Vasant Sheth*, paras 9.7, 11 and 13; *P. Mohanraj v. Shah Bros. Ispat (P) Ltd.*, (2021) 6 SCC 258.
[11] *Rajeev Vasant Sheth*, paras 14 and 15; *SEBI v. Abhijit Rajan*, (2024) 11 SCC 645.
[12] *Rajeev Vasant Sheth*, paras 16 to 18.

corporate purpose" defence, drawn from *Rakesh Agrawal* under the 1992 Regulations, was not open.[13]

IV. Critical Analysis

A. A presumption resting on a Note

The decision treats the Note as decisive. The Note is placed after regulation 4(1) and is stylistically explanatory, but the Court gives it operative force, holding that it bars courts and tribunals from entertaining purpose. The judgment does not discuss the legal status of such Notes, whether they bind or merely guide, or whether subordinate legislation may restrict what a tribunal may consider when the operative text speaks of an insider proving innocence by circumstances "including" six listed ones. The result is probably right on policy, because a purpose test invites after the event rationalisation and is hard to disprove. But a decision that elevates an interpretive Note to a rule of exclusion would have been stronger if it explained why. A practitioner's column approaches the point from the other side, arguing that neither the 1992 nor the 2015 Regulations contains text requiring the regulator to examine motive or scienter, so that on that view the Note confirms a test of possession plus trading and does not create it.[14]

B. "Possession" and "on the basis of"

Section 15G penalises an insider who deals "on the basis of" UPSI, whereas section 12A(e) prohibits dealing "while in possession of" material non public information.[15] The Court reads regulation 4(1) as making possession plus trading sufficient, but never reconciles this with the statutory words "on the basis of". The better reading is that the Note builds a rebuttable presumption of use from possession, and that section 12A(e) supplies a statutory footing for possession as the trigger. That reading was not articulated, and it matters because penalties under section 15G depend on the narrower language. The comparison is instructive: United States Rule 10b5-1 also adopts an "aware of" standard, but pairs it with affirmative defences such as pre-existing plans.[16] Those defences were tightened in 2022, when the SEC added a

[13] *Id.*, para 19; *Rakesh Agrawal v. SEBI*, 2003 SCC OnLine SAT 38.

[14] Shruti Rajan, 'Insider Trading, Corporate Purpose and the Supreme Court' (Bar and Bench, 21 August 2026) <https://www.barandbench.com/columns/insider-trading-corporate-purpose-and-the-supreme-court> accessed 16 November 2026.

[15] Securities and Exchange Board of India Act, 1992, s. 15G (penalty for dealing "on the basis of" unpublished price sensitive information) and s. 12A(e) (dealing "while in possession of" such information).

[16] Compare Securities and Exchange Commission, Rule 10b5-1(b), 17 C.F.R. § 240.10b5-1(b) (trading "on the basis of" material non public information where the trader was "aware" of it), with its affirmative defences in

cooling-off period for directors and officers of at least 90 days, but never more than 120 days, before trading under a plan can begin, together with a condition that every plan be adopted and operated in good faith.[17] The Indian scheme resembles it, but the Court's refusal to look at purpose leaves the burden of rebuttal narrower than the label "rebuttable" suggests.

C. What is an unenumerated defence?

The Court accepts that the six defences are illustrative, and that others must be of a "similar nature", yet it gives no example. The six are structural: an off market transfer between insiders holding the same UPSI, a block deal, a statutory obligation, a pre-fixed stock option exercise, a firm with information barriers, and a prior trading plan.[18] Each shows that the trade did not exploit informational advantage. A defence of "similar nature" would therefore seem to need a showing of that kind, for instance a sale compelled by a lender invoking a pledge, or one fixed before the information arose. The SAT's finding that the company faced downgrade was a motive, not a structure, and the Court was right to reject it. But without guidance on what else qualifies, the residual category may prove empty, and the Court's use of the word "rebuttable" will be read narrowly.

D. Abhijit Rajan and the direction of the price

The first ground, that the 2013 trades were governed by the 1992 Regulations, is persuasive and keeps *Abhijit Rajan* alive for older cases. The earlier case shows why the point matters. The shares there were sold apparently to fund a Corporate Debt Restructuring package, and the Supreme Court had accepted the finding that the insider did not intend to make an undeserved gain, adding that a court may test whether an insider tried to encash the benefit of the information.[19] The second is less secure. The Court observes that in *Abhijit Rajan* the shares were sold before a price rise, and that had the price fallen, the intent to fund a debt restructuring "could have been considered". That suggests purpose mattered under the earlier regime only in certain price conditions, an observation hard to square with the Court's view

rule 10b5-1(c).

[17] Securities and Exchange Commission, 'Rule 10b5-1: Insider Trading Arrangements and Related Disclosure' (Fact Sheet, adopted 14 December 2022) <https://www.sec.gov/files/33-11138-fact-sheet.pdf> accessed 16 November 2026; White & Case, 'SEC Adopts Amendments to Rule 10b5-1' (27 February 2023) <https://www.whitecase.com/insight-alert/sec-adopts-amendments-rule-10b5-1> accessed 16 November 2026.

[18] Insider Trading Regulations, 2015, reg. 4(1) proviso, clause (vi), and reg. 5.

[19] 'Securities and Exchange Board of India v Rajeev Vasant Sheth, 2026 INSC 826' (Verdictum, 2026) <https://www.verdictum.in/supreme-court/securities-and-exchange-board-of-india-v-rajeev-vasant-sheth-2026-insc-826-accused-insider-trading-1619666> accessed 16 November 2026; Prerna Roy, 'Insider Trading: Does "Niyat" Determine the "Niyati"?' (Vinod Kothari Consultants, 14 August 2026) <https://vinodkothari.com/2026/08/insider-trading-does-niyat-determine-the-niyati/> accessed 16 November 2026.

that purpose is simply irrelevant under the Note. The temporal ground alone suffices, and the price point adds uncertainty about how purpose should be treated for pre-2015 trades.

E. Disgorgement and sanction

The Court restored the WTM's disgorgement of about Rs 1.38 crore on the strength of the Explanation to section 11B, holding that "less or no profit" is of no consequence where loss was avoided. That is correct in principle. But the judgment does not set out the computation, and the SAT had noted that closing prices on 29 and 30 November 2017 barely differed. Loss avoided depends on the post disclosure price, and a brief word on how the figure was verified would have been useful.

More puzzling is the reduction of the Chairman's penalty to Rs 10 lakh on a "cumulative view" of the facts. Section 15J requires regard to gain or unfair advantage, loss caused to investors, and repetition.[20] The Court gives none of these as reasons. Its action implies that circumstances may moderate sanction even though they cannot affect liability, which is a defensible and probably sensible position, but it should have been stated, since it tells future promoters that explanation of purpose is not wholly without value, only that it belongs at the penalty stage.

F. Compliance consequences

The practical message is that promoters cannot safely rely on a post-hoc justification. The regulator is also looking harder, since its annual report for 2024-25 records 287 insider trading investigations, up from 175 a year earlier.[21] Law firm commentary on the ruling adds that trading windows should be closed for events such as mergers, fundraising and restructuring discussions and not only before results, and that a stated reason in a pre-clearance request should not be treated as evidence that the trade is permitted. Sales driven by financial need, such as margin calls, are said to deserve extra legal and compliance review before they are carried out.[22] Sales needed for corporate purposes must be made under a trading plan approved in advance, after disclosure of the information, or outside any period of UPSI. Regulation 4(1) and the plan route in regulation 5 are the only reliable shelters. The plan route

[20] Securities and Exchange Board of India Act, 1992, s. 15J.

[21] 'Sebi steps up market surveillance; inspections of brokers, advisers surge in FY25' (Business Today, 12 August 2025) <https://businesstoday.in/markets/stocks/story/sebi-steps-up-market-surveillance-inspections-of-brokers-advisers-surge-in-fy25-489091-2025-08-12> accessed 16 November 2026.

[22] Aditya Prasad, Astha Tambi and Ayushi Mehta, 'Purpose is No Defence: Supreme Court's ruling and the Roadmap for Insider Trading Compliance' (Cyril Amarchand Mangaldas Blog, 10 September 2026) <https://corporate.cyrilamarchandblogs.com/2026/09/purpose-is-no-defence-supreme-courts-ruling-and-the-roadmap-for-insider-trading-compliance/> accessed 16 November 2026.

was made easier in 2024, when SEBI cut the cool-off period before a trading plan can begin from six months to 120 calendar days, with the change taking effect in September 2024.[23]

V. Conclusion

Rajeev Vasant Sheth settles that under the 2015 Regulations possession plus trading establishes the contravention and that purpose and profit are irrelevant to liability, and it rightly confines *Abhijit Rajan* to the earlier regime. It leaves unexplained the status of the Note on which it relies, the relation between possession and the statutory "on the basis of", what an unenumerated defence looks like, the verification of loss avoided, and why circumstances matter to penalty but not to liability. These are gaps in reasoning rather than errors of result. A fuller treatment would help promoters, who now face a rule that is clear in its effect but narrow in its exceptions, and tribunals, which must decide what "similar nature" means.

— I J L J —
ISSN: 2583-2794

[23] Heta Mehta, 'Will Insiders Tread Trading Plan 2.0?' (Vinod Kothari Consultants, July 2024) <https://vinodkothari.com/2024/07/will-insiders-tread-trading-plan-2-0/> accessed 16 November 2026.