21 NOV 2025

NATIONAL LAW UNIVERSITY JODHPUR

End Term Examination August-December – 2025
Semester – UG Semester –IX (Business Laws Hons.)
Subject: Securities Law

Time: 3 hours **Marks: 100 marks**

Instructions:

i. *All the questions carry* ***equal marks.***
ii. *The students are required to attempt* ***Five*** *questions only.*
iii. *Please substantiate your statement(s)/argument(s) with relevant case laws, whenever necessary.*

Q.1.) How have the Courts/Tribunals, redefined the scope of the jurisdictional extent of the Securities and Exchange Board of India (SEBI), vis-à-vis regulation of the securities market, both domestically as well as beyond the territorial borders? **(Marks 20)**

Q.2.) Provide a detailed note, with respect to the powers of SEBI, to issue Disgorgement Orders, as a preventive mechanism to regulate market misconduct. **(Marks 20)**

Q.3) The Securities Market Regulator (SMR) initiated proceedings against Apex Financial Academy Pvt. Ltd. (AFA), its directors Ananya Sharma and Vikram Sharma, and associated proprietary concerns. The case arose from a collective complaint by 42 individuals who had enrolled in paid stock trading courses offered by AFA.

AFA, incorporated in August 2019, was promoted by Ananya and Vikram Sharma and based in Mumbai. The entity maintained a vibrant online presence, advertising its programs and trading "success stories" across a dedicated website (apexfinancialacademy.com) and social media platforms with substantial followership. AFA offered a suite of expensive courses, including "Advanced Algorithmic Trading (AAT)," "Market Masters Bootcamp (MMB)," and "Options Mastery (OM)." Fees for flagship programs went up to ₹8.2 lakh per student.

Complainants were frequently advised to open trading accounts via Ananya Sharma's sub-broker channel with a registered broker (coded as "PQR Securities Ltd."), with strong encouragement to follow Ananya's specific trading directions. Evidence showed that course participants were systematically provided with stock picks, exact buy/sell levels, and ongoing "investment strategies" by Ananya and AFA staff, mainly using encrypted messaging channels, private webinars, and bulk emails. Step-by-step intra-day trading instructions and investment advice were given in real time.

AFA widely advertised that thousands had benefited from their strategies and claimed to manage portfolios worth ₹140–280 crore. Assurances of high returns and no-loss outcomes were frequently made to induce course purchases. Fees were often routed through Delta Traders, Epsilon Consulting, and Zeta Enterprises (proprietorships whose owners were known associates of AFA), with some participants instructed to pay in cash or via these alternate channels for GST avoidance.

Student agreements drafted by AFA lacked transparency but did contain generic disclaimers. Nonetheless, course delivery by Ananya and the team focused on providing guaranteed/semi-guaranteed outcomes and real-time market entry/exit instructions, limiting question opportunities and actively suppressing negative feedback within student cohorts. Many students were required to use only approved broker accounts and

to transfer their holdings or open new accounts through Ananya's brokerage code, under the pretense of "better guidance".

SMR's investigation demonstrated that between 2019–2024, over ₹100 crore was collected through these schemes (with ₹53 crore specifically impounded), and the funds were traced through bank statement analysis, payment gateway records, and digital correspondence.

AFA leadership denied regulatory violations, asserting that their service amounted to general financial education rather than unauthorized investment advice, but the preponderance of evidence convinced SMR that multiple laws and regulations were violated. The SMR order imposed a market ban on AFA, its directors, and the three proprietary entities, directed all relevant accounts be frozen, and impounded unlawful "profits." Further, a separate order was passed regarding full disgorgement pending a final order. Both the Orders have been challenged before the Appellate Tribunal. Decide, the validity of the Orders, based on the earlier precedents and the present factual matrix.

(Marks 20)

Q.4.) XYZ Pvt. Ltd. (*hereinafter* 'Company'), is a public unlisted entity registered as per the laws of Danubia. The Company was seeking to raise funds by issuing Optionally Fully Convertible Debentures (OFCDs). These OFCDs were to the members of the Promoter Group, associates, employees, and select individuals connected to the company. The Company believed that, considering the nature of the instruments in question and the fact that, the issue is not intended for listing on any stock exchange, the issue would qualify as a private placement. Accordingly, XYZ files a red herring prospectus with the Registrar of Companies (RoC), explicitly stating that the issue is not meant for public subscription but only for private placement. Over time, more than 60 individuals subscribe to the OFCDs, and the company circulates an information memorandum to assess investor interest.

The Securities Exchange Commission issued a notice to XYZ Pvt. Ltd., alleging that the company has violated provisions of the Companies Act and SEBI Act by making a public issue without following due process and without seeking listing on a recognized stock exchange. The Whole Time Member, through her Order dated September 17, 2024, held the actions of the Company, in contravention of SEC regulations, and accordingly, imposed a monetary penalty of 15 crores. However, the matter has been appealed before the Appellate Tribunal. As the Presiding Officer, AT, provide a reasoned order, on the following issues:

(i) Whether OFCDs issued by XYZ Pvt. Ltd. qualify as 'securities' under SEBI's jurisdiction for the purposes of regulation.

(ii) Whether the issuance of OFCDs to more than 50 persons amounts to a 'public issue' and if so, what compliance obligations arise under the Companies Act and SEC Act.

(iii) Whether SEC is empowered to regulate the issue of securities by unlisted companies and enforce listing requirements.

(Marks 20)

Note: The Laws of Danubia is *pari materia* to the Laws of Republic of India.

Q.5) A public company ("Company A"), listed on a premier Indian stock exchange, was investigated by the securities market regulator ("Regulator R") following allegations of irregularities in its shareholding structure, manipulation of share registers, and breaches of securities laws. The regulator discovered that Company A had engaged in practices

where entries in the register of members were altered, fresh shares were issued in violation of prescribed procedures, and there were lapses in disclosure of major shareholders and directors.

Further scrutiny revealed that the effective control over Company A had shifted among various individuals and close associates of the original promoters, without adequate disclosure as required under applicable securities regulations. Company A was also found to have provided misleading or incomplete responses to enquiries made by Regulator R. Exercising statutory powers, Regulator R initiated adjudication and took measures such as suspending the trading of Company A's shares and freezing demat accounts linked to disputed shareholdings.

Company A contested these actions before the Appellate Tribunal, alleging procedural unfairness, non-compliance with regulatory process, and that Regulator R exceeded its jurisdiction by imposing punitive sanctions without sufficient evidence. Decide.

(Marks 20)

Q.6.) During the first quarter of a calendar year, several registered securities brokers on a national stock exchange noticed unusually large volumes of trades in certain shares. Analysis revealed that matching buy and sell orders were regularly placed for identical quantities and prices, often within seconds and across multiple locations. These trading patterns resulted in significant price changes for the affected shares.

The securities market regulator ("Regulator R") initiated an investigation into these trades after observing abnormal price movements and patterns suggestive of synchronized trading. The regulator found that various brokers, including one identified as "Broker X", were executing orders that matched perfectly in terms of price and quantity, apparently without any physical meetings or documented agreements between the parties involved.

Although these trades technically conformed to the regulated procedures, the regulator concluded they were designed to facilitate circular trading and price manipulation. In response, the brokers claimed a lack of direct evidence of communication among themselves or with the clients regarding synchronization or collusion, insisting that their transactions were ordinary business activities.

Regulator R issued notices to several brokers and market participants, alleging violation of regulations that prohibit fraudulent and unfair trade practices in securities markets, specifically targeting synchronized and circular trading. Broker X asserted that, without concrete proof of overt communication or agreement, liability for fraud or manipulation could not be established under the relevant market regulations.

Based on the above factual scenario, answer the following: **(Marks 10*2)**

(a) What factual elements should be considered when determining whether trading conduct amounts to fraud or manipulation in the securities market?

(b) Does the absence of direct evidence of collusion or communication absolve market participants from liability under regulations prohibiting unfair and fraudulent practices?