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A Comparative Analysis of Market Manipulation Regulations: SEBI vs. SEC in the Evolving Financial Landscape

Mr. Harsh Mangalam

Student, School of Law, GITAM (Deemed to be University),
Visakhapatnam, Andhra Pradesh.

Abstract

Market manipulation continues to be a significant issue in global financial markets, causing investors to lose trust and damaging market fairness. This study explores how the Securities and Exchange Board of India (SEBI) and the U.S. Securities and Exchange Commission (SEC) work to detect, investigate, and prevent illegal trading activities. The study examines new manipulation tactics like cryptocurrency fraud, algorithmic trading abuses, and stock speculation driven by social media. These tactics often outpace traditional enforcement methods. Therefore, the study offers a comparison of how SEBI and SEC address these challenges, focusing on their legal frameworks, enforcement strategies, and technological advancements. Though SEBI and the SEC have strong regulations, new financial crimes such as digital asset pump-and-dump schemes, private insider trading, and AI-driven manipulation call for improved monitoring and better international cooperation. Findings show SEBI has advanced by implementing real-time monitoring, providing protections for whistleblowers, and conducting detailed audits. Meanwhile, the SEC combats manipulation through stricter penalties, more court actions, and careful oversight of financial influencers. The study recommends that SEBI and SEC enhance cross-border collaboration, improve AI-driven market monitoring, and impose stricter rules for cryptocurrency and algorithmic trading. It also suggests speeding up legal processes and aligning international regulations to maintain market fairness and prevent fraud. As financial markets become more digital, decentralized, and interconnected, it is crucial for regulatory systems to continually adapt to these changes.

Key Words: Securities Law, RegTech, Stock Exchange Fraud, Market Manipulation, Decentralized Finance.

Introduction

Market manipulation is a broad term, and includes a spectrum of deceptive practices that distort the natural order of supply and demand in the market, resulting in artificial price movement in the market¹. These practices undermine market efficiency, mislead investors, and can cause significant damage to the financial markets. Regulators across the globe, including the Securities and Exchange Board of India and the Securities and Exchange Commission of the United States, have established comprehensive legal frameworks to prevent such activities in their respective jurisdictions, and to ensure market integrity.

In India, the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003², is the foundation of laws against market manipulation laws. Under these regulations fraudulent and unfair trade practices are defined to include any act, omission, or conduct that misleads investors or interferes with market efficiency, and includes practices such as, price rigging, pump and dump schemes, circular trading, front rushing, and false or misleading statements. In the United States, market manipulation in the securities market is primarily regulated and governed by Securities Exchange Act of 1934³, which was enacted in response to the market crash of 1929 and the Great Depression. The Act includes various provisions aimed at preventing deceptive and fraudulent practices in securities markets.

Regulatory oversight is crucial for maintaining the integrity and stability of markets, by ensuring that markets function and operate in just, equitable, fair and transparent manner. Probability of market manipulation if left unchecked, can result in severe distortions in price discovery, misallocation of capital, and significant financial losses for investors, ultimately destroying public confidence in the financial systems of a country⁴. The Securities and Exchange Commission and the Securities and Exchange Board of India, through robust

¹ Mohd Asyraf Zulkifley, Ali Fayyaz Munir, et.al., “A Survey on Stock Market Manipulation Detectors Using Artificial Intelligence” 75 Computers, Materials and Continua 1 (2023).

² SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.

³ The United States Securities and Exchange Act, 1934.

⁴ R. S. Geetha, “Examining the Effectiveness of Financial Regulation in Ensuring Market Stability and Integrity” 8 Journal of Emerging Technologies and Innovative Research 3 (2021).

frameworks, monitoring mechanisms, and enforcement powers, deter unscrupulous actors from engaging in deceptive practices such as insider trading, price rigging, front running, and circular trading. Furthermore, regulatory vigilance, is crucial for adapting to the emerging threats posed by technological advancements, including high-frequency trading abuses, social media-fueled market volatility⁵, and cryptocurrency-related manipulations that challenge traditional regulatory frameworks. Frequently updated policies, imposing penalties, and working with supranational agencies, domestic regulators can ensure that their markets remain attractive to both domestic and foreign investors. A strict regulatory framework fosters fair competition in the market, by leveling the playing field for all participants, enhancing investor protection, and reducing systemic risks, ultimately contributing to the overall health and resilience of global capital markets.

This research aims to put forth a comparative analysis of the approaches to market manipulation and enforcement, by the Securities and Exchange Board of India and The United States Securities and Exchange Commission, by analysing legal frameworks, enforcement mechanisms and case studies. This paper will further explore how both the regulators define and address manipulative practices, in their respective jurisdictions. Furthermore, the study will analyse the effectiveness of enforcement actions, penalties imposed, and recent regulatory developments in both jurisdictions. By analysing case laws and the emerging market trends, this paper seeks to highlight the strengths and gaps in regulatory approaches by both the organizations, and lastly, offer policy recommendations for strengthening market integrity in an evolving financial landscape.

International Practices in Preventing Market Manipulation

The financial markets are no longer a national affair, but multinational institutions are significant stakeholders in the markets, and their interests must be protected to ensure a healthy economy, the regulators worldwide must adopt best practices to effectively combat market

⁵ Staff Statement on Meme Coins, Division of Corporation Finance, United States Securities and Exchange Commission, available on: <https://www.sec.gov/newsroom/speeches-statements/staff-statement-meme-coins> (last visited on Mar. 25, 2025).

manipulation. Supernational organizations have established guidelines and frameworks to ensure fair and transparent markets.

IOSCO Principles for Market Integrity and Manipulation Prevention

The International Organization of Securities Commission, has a significant role in molding the global financial regulations by establishing standards for preventing market manipulation and ensuring fair market practices. The organization consists of financial regulators from over 130 nations, including India, the United States, and Europe, the organization primarily focuses on market surveillance, enforcement mechanisms, and transparency measures to observe and prevent market abuse. The market is ever evolving, recently driven by driven by algorithmic trading, cryptocurrency transactions, and cross-border securities trading, which further challenge enforcement of regulations. The organization encourages national regulators to to adopt proactive surveillance measures, impose strict enforcement actions, and mandate stringent disclosure requirements to minimize the risk of manipulative practices.

Strengthening Market Surveillance and Monitoring

Market surveillance is a crucial part of preventing fraudulent trading activities such as insider trading, wash trading, pump-and-dump schemes, and spoofing. Regulators are persuaded to adopt real-time monitoring systems capable of detecting suspicious trading behaviour, such as sudden price swings, unusually high trading volumes, and coordinated trading strategies across multiple exchanges. To enhance regulatory oversight, financial regulators must utilise advanced technologies, including AI-driven analytics, blockchain tracking tools, and big data models, which can efficiently process large amount of market data to identify manipulative patterns. Additionally, automated alert systems could be implemented to recognise potential cases of market abuse, allowing regulatory agencies to respond swiftly. The exchanges and financial institutions are also expected to implement measures to actively report suspicious transactions, to ensure that manipulative actors are investigated and penalised prior to systematic disruption.

Enforcement and Deterrence Mechanisms

A stringent enforcement mechanism is essential to ensure that the scrupulous actors face serious consequences for their actions. The International Organisation of Securities Commissions, recommends that regulators must be bestowed with comprehensive enforcement powers, including the authority to impose heavy monetary fines, suspend trading licenses, blacklist offenders, and initiate criminal proceedings against those engaging in fraudulent practices in the market. The effectiveness of the mechanisms depends highly on the swift and decisive actions of the regulators, which act as a strong deterrent against future violations. In the cases of cross-border market manipulation, regulators should cooperate with international agencies to track financial misconduct that spans multiple jurisdictions. Additionally, specialised market abuse units must be constituted within the regulatory agencies, focusing on investigating complex trading strategies, such as high-frequency trading manipulations and synthetic derivative frauds, and ensuring that enforcement mechanisms are regularly updated with the evolving market structures. Strong penalties and enhanced coordination with strict law enforcement agencies, regulators across the globe can foster improve investor confidence and market stability⁶.

Promoting Transparency and Information Disclosure

An efficient market is fundamentally built upon transparency, the International Organization of Securities Commissions, emphasizes upon the importance of a complete and precise disclosure of material information by corporations and other entities in the market, to prevent information asymmetry and reduce opportunities for manipulation. Publicly traded companies, investment organizations, and market intermediaries must disclose any price-sensitive information, such as earnings reports, regulatory investigations, and major business developments, to prevent unfair advantages. The issuance of any false or misleading statement must be strictly penalized, to ensure that investors receive reliable data for decision-making. Furthermore, the International Organization of Securities Commissions warrants enhanced disclosure requirements for algorithmic and high-frequency trading strategies, especially to

⁶ International Organization of Securities Commissions, “Investigating and Prosecuting Market Manipulation” (2000).

prevent manipulative practices such as, spoofing, layering, and quote stuffing, which distort price movements. A regime based on transparency⁷, will allow the regulators to ensure that market participants operate with integrity, further reinforcing trust in financial systems and protecting the interests of both, retail and institutional investors.

The European Approach: Market Abuse Regulations

The European Securities and Markets Authority, plays a significant role in enforcing the Market Abuse Regulation⁸ across the European Union, through a comprehensive legal framework to prevent market manipulation and abusive trading practices in the European markets⁹. The regulation was introduced in 2016, to promote and strengthen investor protection, enhance market integrity, and ensure fair competition among market participants. It introduced uniform rules across all the European Union member states, addressing key concerns such as insider trading, market manipulation, and the unlawful disclosure of inside information. At present, financial markets are highly complex, because of the advent of, algorithm based trading and decentralised finance, and the integration of blockchain, the regulation has evolved to extend its regulatory oversight cryptocurrency markets and blockchain-based financial transactions.

Prohibition of Market Manipulation and False Trading Practices

The Market Abuse Regulation, contains strict provisions to prohibit market manipulation and deceptive trading activities, which create an unfair trading environment for the investors¹⁰. The regulation explicitly bans practices such as wash trades, matched orders, spoofing, layering, and pump-and-dump schemes, and any such activity which can mislead market participants and artificially influence asset prices. The regulation also takes into account algorithmic trading abuses, especially the practices of spoofing and layering¹¹. Further, the regulations also

⁷ International Organization of Securities Commissions, “Supervisory Framework for Markets” (1999).

⁸ European Union Market Abuse Regulation (596/2014).

⁹ Market Integrity, The European Securities and Markets Authority, available at: [https://www.esma.europa.eu/esmas-activities/markets-and-infrastructure/market-integrity#:~:text=The%20Market%20Abuse%20framework%20is,inside%20information%20and%20market%20manipulation.\(last visited on Mar. 25, 2025\).](https://www.esma.europa.eu/esmas-activities/markets-and-infrastructure/market-integrity#:~:text=The%20Market%20Abuse%20framework%20is,inside%20information%20and%20market%20manipulation.(last%20visited%20on%20Mar.%2025,2025).)

¹⁰ European Union Market Abuse Regulation (596/2014), art. 12.

¹¹ European Union Market Abuse Regulation (596/2014), art. 12 (2).

recognize the growing influence of digital assets, and extends its regulatory oversight to cryptocurrency and decentralized finance markets, ensuring that these novel investment mechanisms, adhere to similar market integrity principles as traditional financial markets.

Automated Surveillance and AI-Based Risk Analysis

The regulators in the European Union have embraced the advanced surveillance technologies, taking into account the growing complexity and speed of the financial markets, this technology is used to detect and prevent market manipulation more effectively. The traditional monitoring techniques are no longer suitable to handle the massive volume of transactions occurring in modern financial markets, especially with the rise of high-frequency trading. To counter this, the regulators have adopted machine learning algorithms, AI-driven surveillance tools, and big data analytics to identify unusual trading behaviours in real time¹². These systems are specially designed to detect anomalies, flag suspicious trading patterns, and generate alerts for further investigation. Additionally, the financial institutions and stock exchanges are mandated to implement risk-based monitoring systems that automatically identify and report potential instances of market abuse to regulatory authorities. The Artificial Intelligence infused technologies are highly effective in identifying complex schemes, including those executed across multiple jurisdictions and intermediaries to evade detection. The use of big data analysis has allowed the regulators to keep a track of cross-border financial flows, ensuring that even sophisticated market manipulation strategies, such as those involving offshore entities and cryptocurrency tumbling services, are detected and prosecuted.

Cross-Border Cooperation and Global Regulatory Coordination

The financial markets across the world are interconnected, and market manipulation is no longer confined to national borders. Fraudulent trading practices, generally span over multiple jurisdictions, making it necessary for the regulators to collaborate in detecting, investigating, and prosecuting illicit activities. The markets continue to become increasingly digitised, and the need for cross-border cooperation has intensified. International co-operation amongst regulators and agreements, such as Memorandum of Understanding, play a significant role in

¹² DROI, European Parliament, “Artificial Intelligence (AI) and Human Rights: Using AI as a Weapon of Repression and its Impact on Human Rights” (2024).

facilitating information-sharing, enforcement actions, and the development of unified regulatory frameworks.

Role of G20 and the Financial Stability Board

The G20, a forum of the world's largest economies, has undertaken an active role in shaping global financial regulations, particularly in addressing market manipulation risks, systemic financial threats, and digital asset regulation. Under the G20, the Financial Stability Board is responsible for issuing global recommendations on securities market integrity, anti-money laundering measures, and oversight of emerging financial products. The Board works closely with numerous national regulators including, the Securities Exchange Commission, the Securities and Exchange Board of India, and the European Securities and Markets Authority, to develop standardised rules and frameworks for market surveillance, reporting obligations, and enforcement actions.

The Financial Stability Board has significantly influenced regulatory policies in the oversight of digital assets, by calling for stricter anti-manipulation measures, requiring greater transparency from crypto firms and imposing anti money laundering requirements on decentralised finance platforms¹³. These measures have been largely influenced by the growing prevalence of cryptocurrency manipulation, decentralised finance scams, and speculative trading driven by social media, as a result of which the G20 has pushed for greater global coordination to regulate crypto exchanges, stable coins, and digital trading platforms.

Emerging Regulations for Cryptocurrencies and Digital Assets

The market for cryptocurrencies and digital assets continues to grow, and the regulators across the globe are implementing new frameworks to address manipulative trading practices that have become widespread in digital asset markets. Unlike the traditional markets, digital assets, are traded on global exchanges with limited oversight, creating opportunities for wash trading,

¹³ Financial Stability Board, "The Use of Supervisory and Regulatory Technology by Authorities and Regulated Institutions: Market Developments and Financial Stability Implications" (2020).

spoofing, and artificial price inflation. The major challenge for regulators has been, to ensure investor protection while fostering innovation in blockchain-based financial markets¹⁴.

Additionally, the central banks and financial regulators across the globe are exploring the introduction of Central Bank Digital Currencies, to counter the concerns about private cryptocurrencies facilitating market manipulation and financial instability. Through standard global frameworks and regulatory clarity, the primary aim is to reduce risks associated with unregulated crypto markets and protect retail investors from manipulative trading tactics.

Market Manipulation Regulations in India: The Role of SEBI

Securities and Exchange Board of India regulates the India capital market with a well-defined role of protection of investors from market manipulation and practices such as fraud in trading and unfair trading. Established in 1992 as a statutory body, SEBI is continuously out with a streamlined regulatory framework through rules, enforcement measures, and surveillance systems prohibiting price rigging, insider trading, circular trading, pump-and-dump strategies, and the like. The SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations¹⁵, 2003 (PFUTP Regulations) are the statutory umbrella that governs market manipulation in India, empowering SEBI to discover, investigate, and punish individuals and entities that engage in deceptive activities on the market. SEBI has brought in real-time market monitoring systems along with artificial intelligence-driven analytics and increased disclosure norms in the Indian landscape so as to detect and prevent manipulative behavior¹⁶. Proactive enforcement rather than new laws has resulted in significant reforms being undertaken, and yet some challenges remain; the ability to detect new types of manipulation; compliance among many enshrined and emerging market participants; and coordination within international regulators in combating cross-border securities fraud. Conversely, the evolution of financial markets has also been a source of difficulty for SEBI with respect to regulation against all

¹⁴ Ibid.

¹⁵ SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.

¹⁶ B. Sudhakar Reddy and Dhulipalla Lakshmi Pranath, "Role of Artificial Intelligence in SEBI: Protection of Investors" 12 International Journal for Research in Applied Science and Engineering Technology 40 (2024).

forms of algorithmic trading abuse, speculation through social media, as well as currency-induced market manipulation.

Evolution of SEBI's Market Manipulation Laws

Before the Securities and Exchange Board of India, got its legal power in 1992 with the SEBI Act, there was very little oversight in India's stock markets. This lack of supervision allowed unfair practices like price rigging, speculative trading, and company fraud to happen easily. The Harshad Mehta scam in 1992 was a major event that highlighted serious gaps in market regulation¹⁷. Without strict checks, manipulating stock prices and engaging in fraudulent transactions was simple. This scandal was a turning point that led to big changes, giving SEBI a larger role as the main regulator of India's securities market. SEBI's responsibilities include protecting investors, ensuring the market stays honest, and stopping fraudulent trade practices. Understanding the need for strong legal rules, SEBI created the SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations in 1995. These regulations aimed to stop misleading or deceptive behaviors in securities trading. As time passed and manipulation tactics became more advanced, it became clear that a major update was necessary. In response, SEBI implemented new PFUTP Regulations in 2003. These updated rules banned a wider range of activities, such as manipulative order placements, false statements, insider trading, and abusive trading methods. Thanks to these updates, SEBI was better equipped to investigate wrongdoers and impose penalties more effectively.

Over the years, SEBI has kept updating its rules to handle new problems and ways people misuse the market. In 2015, SEBI made the penalties for insider trading and price manipulation stricter. They also improved how they watch for suspicious transactions. By 2019, they noticed the dangers of Algorithmic Trading and High-Frequency Trading. As a result, they set specific rules to stop market abuse through these automated systems.

In 2022, SEBI introduced new rules to fight stock manipulation driven by social media, focusing on stopping pump-and-dump schemes done through online forums, WhatsApp

¹⁷ Bill Damachis, "The Bombay Securities Scam of 1992, the Systematic and Structural Origins" Policy Organisation and Society 40 (1994).

groups, and influencer-backed promotions¹⁸. Besides changing laws, SEBI has invested a lot in technology. They use real-time systems to watch the market, as well as AI-driven data analysis and advanced tools to recognize unusual trading patterns and fraud. These efforts show SEBI's commitment to staying ahead as the market and financial risks evolve¹⁹.

Key Provisions under the SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003

Prohibited Activities Under the PFUTP Regulations

The SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (PFUTP Regulations) prohibit a number of manipulative trading practices in order to curb market integrity and protect investor confidence. Among the major prohibited activities is price rigging as per Regulation 4(2)(e)²⁰, i.e., the execution of trades with the intent of artificially inflating or deflating the price of securities, meant to mislead investors regarding the true worth of a security. The other major concern is circular trading, which is prohibited under Regulation 4(2)(a)²¹, whereby multiple entities come together and buy and sell securities amongst themselves to give the impression of high trading volume and liquidity without any real change in ownership, leading retail investors to believe that the stock is truly in demand. Pump-and-dump schemes are similarly described in Regulation 4(2)(b)²², where manipulators use false or misleading promotions, social media hype, or fake news to artificially inflate a stock's price, followed by bulk offloading of shares, resulting in unsuspecting investors facing losses when the stock price crashes.

¹⁸ Rahul Sundaram, "SEBI Cracks Down on Social Media Fraud: New Advertising Rules for Market Intermediaries", Mondaq, Mar. 26, 2025, available at:

<https://www.mondaq.com/india/social-media/1602100/sebi-cracks-down-on-social-media-fraud-new-advertising-rules-for-market-intermediaries> (last visited on Mar. 31, 2025).

¹⁹ Dhruv Madan and Shauryavardhan Tomar, "Forward yet Faulting: Decoding SEBI's Straitjacketed Approach to the Artificial-Intelligence Genome", Centre for Business and Financial Laws, NLU Delhi, Feb. 08, 2025, available at: <https://www.cbflnludelhii.in/post/forward-yet-faulting-decoding-sebi-s-straitjacketed-approach-to-the-artificial-intelligence-genome> (last visited on Mar. 31, 2025).

²⁰ SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 reg. 4 (2) (e).

²¹ SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 reg. 4 (2) (a).

²² SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 reg. 4 (2) (b).

Further, wash trades, which are expressly banned under Regulation 4(2)(c)²³, are trading actions characterized by the simultaneous execution by the same or related entities of equivalent buy and sell orders with the intent to create a false impression of market activity with no bona fide change in ownership. Spoofing and layering, both of which constitute an advanced form of manipulation under Regulation 4(2)(d)²⁴, entail the placing of large orders that are, in fact, non-genuine and executed for the intent of misleading market participants into believing in false market sentiments—cancellation of these orders typically happens before execution as a tactic to confuse other traders into reacting to fake market signals. The same malignant practice, if exercised in algorithmic and high-frequency trading environments, causes trades to be manipulated and canceled in the order of fractions of a second, severely impairing fair operations of the market. In dealing with these kinds of matters, SEBI has taken a hard stance so that violators are ensured of penalties, trading restrictions, and in extreme cases, criminal prosecution, reaffirming the intention of the regulator to keep the market fair and transparent.

Powers of SEBI to Investigate and Enforce

SEBI, has strong powers from the SEBI Act, 1992, and the SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003. These powers let SEBI track down, investigate, and punish people or companies involved in cheating and dishonest trading in the market. SEBI can conduct investigations and forensic audits using Section 11C of the SEBI Act, 1992²⁵. This section allows SEBI to ask people to provide information, check records, and inspect financial books to find any signs of cheating. If SEBI suspects wrongdoing, it can hire forensic auditors. These experts look closely at trading data, price changes, and communication records to find evidence of misconduct. The findings from these investigations enable SEBI to stop illegal activities and take action against those who break the rules.

²³ SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 reg. 4 (2) (c).

²⁴ SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 reg. 4 (2) (d).

²⁵ The Securities and Exchange Board of India Act, 1992 (Act 15 of 1992) sec. 11C.

SEBI also possesses the authority to impose monetary penalties and trading bans on those found guilty of market manipulation. Under Section 15HA of the SEBI Act, 1992, any person engaging in fraudulent or unfair trade practices can be fined up to ₹25 crores or three times the amount of profit made from such practices, whichever is higher. Additionally, Regulation 11 of the PFUTP Regulations, 2003²⁶ grants SEBI the power to restrain entities from accessing capital markets, effectively barring them from participating in securities trading. Furthermore, under Section 11(4)(b) of the SEBI Act²⁷, SEBI can direct stock exchanges and depositories to freeze the securities accounts of entities involved in manipulative schemes, preventing them from liquidating their assets.

For cases involving serious fraud, SEBI collaborates with law enforcement agencies for criminal prosecution under Section 26 of the SEBI Act²⁸, which enables it to initiate criminal proceedings against offenders in special courts designated for securities law violations. SEBI works closely with the Enforcement Directorate (ED), the Central Bureau of Investigation (CBI), and the Serious Fraud Investigation Office (SFIO) to track large-scale securities fraud, cross-border manipulations, and insider trading networks. By leveraging these enforcement mechanisms, SEBI ensures that market manipulators face stringent consequences, thereby reinforcing fairness, transparency, and investor confidence in India's securities markets.

Recent SEBI Guidelines and Amendments

SEBI works hard to keep up with the fast-changing financial markets and new threats. They regularly update rules to fight new types of market manipulation, increase transparency, and protect investors. A major update happened in 2022 when SEBI introduced rules to combat stock manipulation on social media platforms. The growth of digital platforms, along with financial influencers known as finfluencers, has made it easier for people to run pump-and-dump schemes²⁹. In these schemes, stocks are falsely promoted to raise their prices artificially

²⁶ SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 reg. 11.

²⁷ The Securities and Exchange Board of India Act, 1992 (Act 15 of 1992) sec. 11 (4) (b).

²⁸ The Securities and Exchange Board of India Act, 1992 (Act 15 of 1992) sec. 26.

²⁹ Nikhil Agarwal, "SEBI Cracks Down on Finfluencers Selling Stock Tips in the Name of Education", The Economic Times, Jan. 30, 2025, available at: <https://economictimes.indiatimes.com/markets/stocks/news/sebi-cracks-down-on-finfluencers-selling-stock-tips-in-the-name-of-education/articleshow/117723874.cms?from=mdr> (last visited on Mar. 31, 2025).

and then sold at a profit. SEBI's new framework demands more openness from market commentators, influencers, and financial advisory firms, ensuring their stock recommendations are based on careful checks. Heavier penalties are now imposed on those engaging in dishonest promotions, acknowledging the strong impact of social media on investor opinions.

For cases involving serious fraud, SEBI collaborates with law. In 2023, SEBI introduced enhanced regulations for algorithmic trading and High-Frequency Trading, responding to concerns about market manipulation through sophisticated automated strategies. Algorithmic traders now must register their trading programs with stock exchanges, ensuring greater oversight and risk management. These measures aim to prevent spoofing and layering, both of which distort market prices and create unfair advantages. Additionally, SEBI has implemented stricter circuit filters and surveillance measures to prevent flash crashes, which can be triggered by rogue algorithms executing trades at extreme speeds. enforcement agencies for criminal prosecution under Section 26 of the SEBI Act, which enables it to initiate criminal proceedings against offenders in special courts designated for securities law violations. SEBI works closely with the Enforcement Directorate (ED), the Central Bureau of Investigation (CBI), and the Serious Fraud Investigation Office (SFIO) to track large-scale securities fraud, cross-border manipulations, and insider trading networks. By leveraging these enforcement mechanisms, SEBI ensures that market manipulators face stringent consequences, thereby reinforcing fairness, transparency, and investor confidence in India's securities markets.

Also in 2023, SEBI strengthened its Insider Trading Regulations by introducing tighter disclosure norms and pre-clearance requirements for company insiders. Amendments to the SEBI (Prohibition of Insider Trading) Regulations, 2015 now place greater accountability on companies, requiring them to implement robust internal compliance mechanisms. These reforms ensure that firms actively monitor trading activities of their key executives and employees to prevent leaks of unpublished price-sensitive information (UPSI). Additionally, SEBI has increased penalties for firms failing to prevent insider trading, reinforcing its commitment to market integrity and investor trust.

Most recently, in 2024, SEBI has expanded its surveillance and enforcement powers, particularly in conducting forensic audits and freezing accounts linked to suspicious trading

activities³⁰. The regulator now has enhanced authority to direct stock exchanges and depositories to restrict trading in securities suspected of being involved in fraudulent schemes. SEBI has also upgraded its market surveillance infrastructure, integrating AI-driven detection tools to monitor unusual price movements and trading patterns in real time. These technological advancements allow SEBI to identify and act against manipulative practices more efficiently, ensuring that market integrity is upheld even in an increasingly complex financial landscape³¹.

Through these proactive regulatory updates, SEBI aims to stay ahead of emerging market threats, deter fraudulent actors, and create a more transparent and fairer securities market. These measures not only strengthen investor confidence but also align India's regulatory framework with global best practices, making the capital markets more resilient to evolving financial risks.

Challenges in Enforcement and Compliance

SEBI has established a strong set of rules to regulate the market, but stopping manipulation is still very challenging. This difficulty is due to new technology, international challenges, and legal limits. One big problem is that manipulation tactics keep evolving. The growth of AI-powered trading, automated bots, and darknet transactions makes control harder. Clever manipulators use high-frequency trading, spoofing algorithms, and flash trading mechanisms. These allow them to quickly make and cancel trades, making it hard to catch and stop them. Moreover, cross-border market abuse is increasing. Fraudsters often use foreign accounts and brokerage firms to dodge SEBI's oversight. Many scams, like pump-and-dump schemes and insider trading rings, involve international players. As a result, SEBI needs to cooperate closely with regulators in other countries to effectively track down and penalize these wrongdoers.

SEBI is dealing with a big issue of insider trading and not getting enough help from whistle-blowers to tackle it. Insider trading is tough to detect because it often happens through private communications, like hard-to-access messaging apps, where secret company price information

³⁰ Master Circular, Securities and Exchange Board of India, Sept. 23, 2024.

³¹ Dhruv Madan and Shauryavardhan Tomar, "Forward yet Faulting: Decoding SEBI's Straitjacketed Approach to the Artificial-Intelligence Genome", Centre for Business and Financial Laws, NLU Delhi, Feb. 08, 2025, available at: <https://www.cbflnldelhi.in/post/forward-yet-faulting-decoding-sebi-s-straitjacketed-approach-to-the-artificial-intelligence-genome> (last visited on Mar. 31, 2025).

is shared quietly and carefully³². In the U.S., the SEC encourages people to report insider trading by offering money, but in India, whistle-blower participation is still low. Despite SEBI's protective measures, many potential whistle-blowers are scared of being punished by their employers or facing legal issues, so they hesitate to report. To improve law enforcement, it would be beneficial to strengthen company rules and offer better rewards for whistle-blowers.

SEBI struggles with long investigations and legal processes that slow down penalties and actions meant to stop misconduct. Cases involving market manipulation can drag on due to appeals, counterclaims, and the busy nature of Indian courts. This delay allows some violators to find and use legal gaps, letting them continue working in the financial markets. To effectively tackle financial crimes, there needs to be better coordination between SEBI and agencies like RBI, Enforcement Directorate, and the Central Bureau of Investigation. A simpler and quicker legal process for securities fraud cases could make SEBI more effective and help reduce dishonest practices in the markets.

The increase in cryptocurrencies and decentralized finance platforms is a major challenge for SEBI. Right now, India does not have specific rules for digital assets, making it tough to oversee and stop cheating in the crypto market. Many dishonest activities are common, like wash trading, using social media to influence prices, and schemes where people artificially inflate and then drop prices. These often occur in unregulated crypto exchanges, many of which are based outside of India and are even harder to control. Blockchain transactions are anonymous, and DeFi platforms are decentralized, which adds to the difficulty. SEBI is developing plans to regulate digital assets, but countries around the world need to collaborate to truly cut down on cheating in the crypto markets.

To address these challenges, several strategies need to be applied. Improving regulatory technology, known as RegTech, is one step. Encouraging more cooperation between countries can help us tackle issues more effectively³³. It's also important to reward whistle-blowers who report wrongdoing, as this encourages others to come forward. We need to make legal

³² Shivangi Dhawan and Anupreet Kaur Mokha, "Whistle Blowing: Facing Challenges in India" 8 Asian Journal of Management (2017).

³³ Mitzi Bolton and Michael Mintrom, "RegTech and Creating Public Value: Opportunities and Challenges" 6 Policy Design and Practice (2023).

procedures faster to resolve issues quickly. Establishing clear rules for cryptocurrencies is crucial too. By working on these areas, SEBI can strengthen its enforcement measures. This will help maintain a securities market in India that is fair, transparent, and well-regulated.

Market Manipulation Regulations in the U.S.: The Role of the SEC

The U.S. Securities and Exchange Commission, known as the SEC, is the main organization responsible for overseeing the securities markets in the United States. Its primary role is to ensure that all trading practices are fair and honest. It was established in 1934, following the significant stock market crash of 1929³⁴. The SEC's responsibilities include enforcing anti-fraud laws, preventing market manipulation, and protecting the rights and interests of investors. The Securities Exchange Act of 1934³⁵ primarily governs the rules against market manipulation in the U.S. The SEC enforces these rules to stop deceptive trading, illegal insider trading, and other unfair practices in the markets. Over the years, the SEC has improved its monitoring systems and imposed large fines on those who violate the rules. It has also adapted to new challenges like algorithmic trading and fraud involving cryptocurrencies. The SEC plays a vital role in maintaining order and trust in the financial markets.

The SEC's Legal Framework for Market Manipulation

The U.S. Securities and Exchange Commission has a set of rules to stop people from cheating or playing unfairly in the stock market. These rules are important to keep the markets honest and clear, make sure trading is done fairly, and protect people who invest their money from being tricked. Over the years, the SEC has gained more power to make sure these rules are followed. They use both old laws and new tools to deal with new kinds of problems in the markets. This helps them stay on top of any changes and keep investors safe.

Securities Exchange Act of 1934: The Foundation of U.S. Market Regulation

The Securities Exchange Act of 1934 is a key law in the U.S. for overseeing securities, which include stocks and bonds. It was created after the 1929 stock market crash to help prevent

³⁴ Norman S. Poser and Michael Mintrom, "RegTech and Creating Public Value: Opportunities and Challenges" 3 Brooklyn Journal of Corporate, Financial & Commercial Law 290 (2009).

³⁵ The United States Securities and Exchange Act, 1934.

similar incidents. This law set up the SEC as the main federal body in charge of keeping an eye on the stock markets to stop fraud and cheating. The SEC has strong powers to control how stock exchanges, broker-dealers, and investment firms operate, making sure they work fairly, efficiently, and openly. Companies that sell stocks publicly must now share important financial details thanks to this law. This requirement helps everyone have the same access to information and stops companies from making up earnings or giving false financial statements.

Under this law, the SEC can investigate issues, send legal orders for people to appear in court, impose fines, halt trading activities, and take legal action against those who break the rules. Additionally, this law allows organizations like the Financial Industry Regulatory Authority, also known as FINRA, to have the authority to monitor the securities industry. They make sure that brokerage firms and trading platforms follow the rules set by the federal government.

Rule 10b-5: Prohibiting Fraudulent Trading and Market Manipulation

One of the most powerful tools in the SEC's enforcement arsenal is Rule 10b-5³⁶, which was introduced under the Securities Exchange Act of 1934. This rule is considered the primary anti-fraud provision in U.S. securities law, as it prohibits:

- i. Fraudulent trading schemes designed to manipulate securities prices.
- ii. Misleading statements or material omissions that deceive investors.
- iii. Insider trading, where individuals use non-public information to gain an unfair market advantage.

Rule 10b-5 has been the foundation for major SEC enforcement actions against corporate fraud, Ponzi schemes, and high-profile insider trading cases. For example, the SEC has used Rule 10b-5 to prosecute cases involving fraudulent earnings reports, misleading financial projections, and deceptive stock promotions. The rule also empowers investors to file lawsuits against companies and individuals who engage in securities fraud, providing an additional layer of protection for market participants.

³⁶ The United States Securities and Exchange Act, 1934 sec. 10b-5.

Section 9(a) of the Exchange Act: Combatting Market Manipulation Tactics

Section 9(a) of the Securities Exchange Act of 1934³⁷ specifically targets market manipulation tactics such as wash trading, false price reporting, and rigged securities transactions. This section prohibits any deceptive practices that artificially affect stock prices and mislead investors into making trading decisions based on false market signals.

Under Section 9(a), the SEC has the authority to prosecute traders, firms, and market participants involved in:

- i. Wash Trades: Artificially increasing trading volume by executing offsetting buy and sell orders without any actual market risk.
- ii. Matched Orders: Coordinated trading between entities to create the illusion of high demand for a security.
- iii. Pump-and-Dump Schemes: Fraudulently inflating stock prices through misleading promotions before selling off shares at a profit.
- iv. Spoofing and Layering: Placing large non-genuine orders to manipulate supply and demand before canceling them.

Dodd-Frank Act: Strengthening SEC Oversight and Whistle-blower Protections

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010³⁸ was created after the financial crisis in 2008. It aimed to give the SEC more power to oversee financial markets. This Act included important measures to ensure market transparency, closely monitor complicated financial products, and combat fraud.

A significant part of Dodd-Frank was the creation of the SEC Whistle-blower Program, which:

- i. Motivates people to report fraud and manipulative activities in the market by offering them financial rewards.

³⁷ The United States Securities and Exchange Act, 1934 sec. 9 (a).

³⁸ The United States Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010.

- ii. Protects whistle-blowers from losing their jobs, allowing them to report wrongdoings without fear of retaliation.
- iii. Has resulted in significant enforcement actions, bringing in billions of dollars in penalties and recoveries for investors.

Furthermore, the Dodd-Frank Act expanded the SEC's role in overseeing derivatives markets³⁹. It required tighter scrutiny of hedge funds, credit rating agencies, and high-frequency trading firms. The Act also boosted the SEC's capabilities to oversee credit default swaps and other complex financial instruments, which helped reduce the risks that led to the 2008 market crisis.

Collaboration Between the SEC and Other Regulatory Agencies

The Securities and Exchange Commission oversees securities markets at the federal level, but its authority is bolstered through partnerships with other agencies and self-regulatory organizations. Financial markets are complicated, and issues like securities fraud and market manipulation often fall outside the SEC's reach. This is why the SEC teams up with agencies that focus on criminal cases, derivatives markets, and financial crime investigations. This collaborative approach helps tackle securities fraud through both regulation and law enforcement, ensuring markets are honest and run smoothly.

A crucial partner for the SEC is the Financial Industry Regulatory Authority, that keeps an eye on brokerage firms, investment advisors, and financial institutions⁴⁰. FINRA is key in enforcing SEC rules, watching markets, and looking into trading violations like insider trading and market manipulation. Its advanced systems can detect unusual trading activities and compliance breaches, allowing the SEC to respond quickly. FINRA also licenses financial professionals and ensures brokers meet ethical standards, which is vital in protecting investors from scams and fraudulent practices.

³⁹ The United States Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010, Title-VII.

⁴⁰ About FINRA, Financial Industry Regulatory Authority, available at: <http://finra.org/about> (last visited on Mar. 26, 2025).

The Role of the DOJ and CFTC in Market Manipulation Cases

The Department of Justice works in tandem with the SEC to pursue criminal prosecutions for securities fraud, particularly in cases involving large-scale market manipulation, Ponzi schemes, and corporate fraud⁴¹. While the SEC primarily handles civil enforcement actions, such as fines, trading bans, and regulatory sanctions the DOJ has the authority to initiate criminal proceedings against individuals and entities engaged in securities fraud. This collaboration is particularly critical in high-profile financial crimes, such as the Bernie Madoff Ponzi scheme and insider trading cases involving hedge fund executives. The DOJ and SEC frequently coordinate their investigations, share evidence, and prosecute financial criminals under federal securities laws to ensure both civil and criminal accountability for market violations.

Similarly, the Commodity Futures Trading Commission plays a vital role in regulating derivatives markets, including futures, options, and commodities trading. The CFTC and SEC jointly oversee areas where securities and commodities markets overlap, such as algorithmic trading, high-frequency trading, and cryptocurrency market manipulation. Given the rise of crypto-based securities and decentralized finance trading, the SEC and CFTC have increasingly worked together to establish regulatory frameworks for digital assets, detect fraudulent crypto schemes, and hold exchanges accountable for compliance violations. Through inter-agency cooperation, intelligence-sharing, and joint enforcement actions, these regulatory bodies ensure stronger market oversight, enhanced investor protection, and greater resilience against financial crimes.

The SEC, or Securities and Exchange Commission, has strong rules to stop cheating in financial markets. These rules come from laws and collaboration with other agencies. The SEC enforces the Securities Exchange Act of 1934, Rule 10b-5, and Section 9(a) to find and punish tricks like insider trading, wash trades, and pump-and-dump schemes. The Dodd-Frank Act gave the SEC more power, especially to protect whistle-blowers and manage complex financial products like derivatives. Even with these strong rules, catching new types of cheating is tough.

⁴¹ Mary Kreiner Ramirez, "Prioritizing Justice: Combating Corporate Crime From Task Force to Top Priority" 93 Marquette Law Review 973 (2010).

This is especially true with advanced trading technologies like algorithmic trading, decentralized finance, and international fraud. To handle these issues, the SEC uses modern surveillance tools and AI-powered trading analytics. It also works with other countries to keep U.S. financial markets safe from manipulation and fraud.

Comparative Assessment of Market Manipulation Regulations: SEBI vs. SEC

The Securities and Exchange Board of India (SEBI) and the U.S. Securities and Exchange Commission (SEC) are the main regulators for financial markets in India and the United States. Both agencies focus on protecting investors, ensuring that markets are fair and honest, and stopping any actions that could unfairly influence the markets. SEBI and SEC have similar goals, but how they operate is different. This is because each agency follows its own set of rules, uses different methods to enforce these rules, and has varied technological tools. These differences result from the distinct laws, structures, and economic situations in either country.

Differences in Legal and Regulatory Approaches

The legal foundations of SEBI and the SEC differ significantly due to the distinct evolution of financial markets in India and the U.S.:

- i. **Statutory Frameworks:** The SEC operates under the Securities Exchange Act of 1934, which provides a comprehensive legal framework for securities trading, investor protection, and corporate governance. In contrast, SEBI derives its authority from the SEBI Act, 1992, which was enacted in response to financial market scandals and evolving economic reforms in India.
- ii. **Market Manipulation Laws:** The SEC enforces Rule 10b-5 under the Exchange Act and Section 9(a)⁴², which explicitly prohibit fraudulent, deceptive, and manipulative practices, including insider trading, wash trading, and spoofing. SEBI enforces the Prohibition of Fraudulent and Unfair Trade Practices (PFUTP)

⁴² The United States Securities and Exchange Act, 1934 sec. 9 (a) and 10-b.

Regulations, 2003⁴³, which similarly ban price rigging, circular trading, and other forms of unfair market conduct.

- iii. **Scope of Regulation:** The SEC covers a lot of areas, like securities, financial intermediaries, and parts of the cryptocurrency markets. On the other hand, SEBI focuses mainly on stock exchanges, investment advisers, and companies that are on the stock market. In India, the regulations for cryptocurrencies are still not clear. In the U.S., however, the SEC has been very active in enforcing rules when it comes to cryptocurrencies.

Enforcement Mechanisms

Both SEBI and the SEC have strong enforcement mechanisms, but their approach to investigations, penalties, and prosecution varies.

- i. **Investigations:** The Securities and Exchange Commission, or SEC, has a team called the Division of Enforcement. This team works with other organizations like the Department of Justice, Financial Industry Regulatory Authority, and Commodity Futures Trading Commission to investigate cases of market manipulation, which means cheating or dishonest practices in financial markets⁴⁴. In India, the Securities and Exchange Board of India, known as SEBI, also investigates such cases. They use their Integrated Surveillance Department for these investigations. SEBI often partners with other groups like the Enforcement Directorate and the Reserve Bank of India to look into these matters. Both SEC and SEBI aim to keep financial markets fair and honest by catching and stopping any wrongdoings⁴⁵.
- ii. **Penalties and Sanctions:** The SEC imposes hefty monetary fines, trading bans, and disgorgement of illegal profits as penalties for market manipulation. SEBI also

⁴³ SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.

⁴⁴ Mary Kreiner Ramirez, "Prioritizing Justice: Combating Corporate Crime From Task Force to Top Priority" 93 Marquette Law Review 973 (2010).

⁴⁵ Manjari Tyagi, Deepika Goyal, et.al., "India: A Deep Dive into SEBI and Related Legislation Amid Insider Trading and Market Manipulation Investigations", Global Investigations Review, Dec. 07, 2003, available at: <http://globalinvestigationsreview.com/guide/the-guide-international-enforcement-of-the-securities-laws/third-edition/article/india-deep-dive-sebi-and-related-legislation-amid-insider-trading-and-market-manipulation-investigations> (last visited on Mar. 31, 2025).

imposes monetary penalties and trading restrictions, but its penalty structures are generally less severe compared to the SEC.

- iii. **Criminal Prosecution:** SEBI can begin civil and regulatory actions but cannot take direct criminal action. For criminal cases, it must involve India's courts and other investigation agencies. In contrast, the SEC collaborates with the DOJ to bring criminal charges, ensuring that offenders in the U.S. can be held accountable both civil and criminal grounds.

The Role of Technology and AI in Detection

Both SEBI and the SEC have integrated advanced surveillance and AI-driven tools to detect and prevent market manipulation.

- i. **Real-time Surveillance:** The SEC uses special computer programs with artificial intelligence to constantly monitor the market⁴⁶. These programs can quickly detect unusual activities, identify suspicious trades, and examine market patterns. Similarly, SEBI has its own AI tools, including the Data Warehouse and Business Intelligence System⁴⁷. These tools are designed to spot risky transactions and activities related to insider trading.
- ii. **Algorithmic and High-Frequency Trading Monitoring:** Given the rise in algorithmic trading, both SEBI and the SEC have strengthened their oversight of automated trading strategies. The SEC enforces stringent HFT regulations, while SEBI has implemented risk control measures to prevent flash crashes and abusive trading practices.
- iii. **Big Data and Blockchain Technology:** The SEC collaborates with specialized data analysis companies and uses blockchain technology to monitor and prevent cheating in the crypto market. In contrast, SEBI faces challenges because it doesn't

⁴⁶ SEC Proposed Rule, Conflicts of Interest Associated with the Use of Predictive Data Analytics by Broker-Dealers and Investment Advisers, Exchange Act Release No. 97990 (July 26, 2023).

⁴⁷ Launch of Data Ware Housing and Business Intelligence System, Securities and Exchange Board of India, Press Release 28/2011.

have clear rules for dealing with cryptocurrencies⁴⁸. This lack of clear rules makes it more difficult for SEBI to enforce regulations as effectively as the SEC.

Effectiveness of SEBI vs. SEC in Protecting Market Integrity

While both regulators have made significant strides in protecting market integrity, differences in their jurisdictional authority, enforcement powers, and legal frameworks impact their overall effectiveness.

- i. **Strengths of the SEC:** The SEC benefits from a **mature financial market, stronger regulatory powers, and well-established legal precedents**. Its ability to **impose substantial penalties, coordinate with international regulators, and pursue criminal cases makes it highly effective**.
- ii. **Strengths of SEBI:** SEBI has made rapid advancements in market surveillance and enforcement over the past two decades. It has tightened regulations on insider trading, social media-driven market manipulation, and algorithmic trading. However, limited enforcement resources, slow legal proceedings, and a developing financial market pose challenges.
- iii. **Key Areas for Improvement:** SEBI needs greater legal autonomy to initiate criminal prosecutions and enhanced cross-border regulatory coordination to track offshore fraud. The SEC, despite its strengths, faces challenges in regulating decentralized finance (DeFi) and cryptocurrency markets, where enforcement remains legally contested.

Overall, both regulators play a critical role in maintaining investor trust and financial stability. While the SEC leads in enforcement capabilities and regulatory depth, SEBI is steadily strengthening its framework to meet the evolving challenges of market manipulation in India's fast-growing capital markets.

⁴⁸ Muffliha Sada and T. Vaishali, "Crypto Crimes: Legal Challenges and Regulation of Cryptocurrency in India." 5 International Journal of Research Publication and Reviews (2024).

Emerging Trends and Future Challenges

As financial markets grow and change, we see new ways people try to manipulate them. This creates challenges for regulatory bodies such as SEBI in India and the SEC in the USA. These challenges include dealing with things like cryptocurrency, decentralized finance schemes, and how social media influences stock movements. Additionally, there is a greater need for countries to work together more closely. Regulators must update their rules and systems to ensure markets remain fair and honest. This section will discuss these important issues and explore what regulators can do to address them effectively.

The Rise of Cryptocurrency and Decentralized Finance Manipulation

Cryptocurrencies and decentralized finance platforms are growing fast, leading to increased market cheating that's worrying regulators everywhere. Unlike traditional finance markets, crypto markets don't have strict rules, making it easier for dishonest activities to occur. One common trick is the pump-and-dump scheme⁴⁹. In this scheme, traders artificially raise a cryptocurrency's price using social media excitement, fake promotions, or big buying sprees. When the price peaks, they sell off their holdings, causing regular investors to lose money. Another deceptive practice is wash trading on crypto exchanges⁵⁰. This is when the same person or group controls both sides of a trade to make it seem like there is a lot of trading activity. This creates a false impression of demand and skews actual trading volumes, leading to inaccurate pricing. Additionally, on decentralized exchanges, there's an issue called front-running⁵¹. Traders exploit visible pending trades on the blockchain to place their own trades first, before large trades happen. This behavior disrupts fair market pricing and disadvantages everyday investors, who don't have advanced trading tools.

Organizations like SEBI and the SEC are addressing problems with crypto market manipulation in different ways. SEBI is aware of fraud issues in digital asset markets, but they do not yet have a clear set of rules for controlling cryptocurrencies, as these don't directly fall

⁴⁹ Customer Advisory: Beware Virtual Currency Pump-and-Dump Schemes, Commodity Futures Trading Commission.

⁵⁰ Guénolé Le Pennec, Ingo Fiedler, et.al., "Wash Trading at Cryptocurrency Exchanges" 43 Finance Research Letters (2023).

⁵¹ Andrey Sobol, "Frontrunning on Automated Decentralized Exchange in Proof of Stake Environment" International Association for Cryptographic Research (2020).

under their oversight. In contrast, the SEC, with Chairman Gary Gensler, is taking a more forceful approach. They are identifying some digital tokens as securities and have even taken legal steps against major crypto exchanges for possibly allowing trading of unregistered securities⁵². Despite these actions, combatting manipulation in crypto markets is still a big worldwide challenge because digital assets are decentralized and operate across borders. Regulators might need to use advanced technology, like AI for monitoring transactions and blockchain tools for thorough investigations, to tackle illegal activities effectively⁵³. Moreover, global cooperation with financial authorities and law enforcement is crucial for fighting cross-border fraud and making crypto markets more transparent and well-regulated.

Impact of Social-Media and Retail Investor Frenzies

The rise of social media-driven trading has significantly disrupted traditional market dynamics, with platforms like Twitter, Reddit, YouTube, and Telegram playing a key role in shaping investor sentiment and stock market trends⁵⁴. Events like the GameStop and AMC stock surges of 2021 demonstrated how coordinated retail investor activity on social media forums can lead to extreme price volatility, short squeezes, and potential market manipulation risks⁵⁵. Stocks that gain sudden popularity due to viral discussions, often referred to as “meme stocks,” experience dramatic price fluctuations that are largely driven by hype rather than fundamental financial performance. While retail investors may initially drive these surges, hedge funds and institutional traders sometimes exploit these trends by strategically positioning themselves to profit from short squeezes or speculative trading strategies. This interplay between social media-fuelled retail enthusiasm and institutional trading strategies creates an unpredictable market environment, raising concerns about investor protection, fair market pricing, and the stability of financial markets.

⁵² Crypto Assets, United States Securities and Exchange Commission, available at: <https://www.sec.gov/securities-topics/crypto-assets> (last visited on Mar. 26, 2025).

⁵³ Mitzi Bolton and Michael Mintrom, “RegTech and Creating Public Value: Opportunities and Challenges” 6 Policy Design and Practice (2023).

⁵⁴ Ilaria Gianstefani, Luigi Longo, et.al., “A Social Media Alert System for Meme Stocks” Quantitative Finance (2025).

⁵⁵ Kwansoo Kim, Sang-Yong Tom Lee, et.al., “Social Informedness and Investor Sentiment in the GameStop Short Squeeze” 33 Electronic Markets (2023).

A major reason why markets are influenced by social media is because of financial influencers, also known as finfluencers⁵⁶. These are individuals who share advice about investments, stock tips, and trading strategies on platforms like YouTube, Instagram, and Telegram. Often, they do this without having any regulations to follow. Some of these influencers genuinely try to educate people about finances. However, others might spread misinformation, promote things dishonestly, or work with companies without revealing their partnerships. They might also drive-up stock prices and then sell their shares at a profit, leaving their followers at a loss.

To protect people from such risks, SEBI, has introduced new rules. These require financial content creators to disclose their connections with stockbrokers, mutual funds, or investment platforms⁵⁷. This ensures transparency and helps prevent conflicts of interest. Likewise, the SEC, another regulatory authority, has taken action against influencers who promote stocks without full disclosure or who manipulate markets for personal gain.

With the vast amount of financial content online, monitoring everything is challenging. Therefore, regulators may need to use AI tools to track social media trends. These tools can help identify patterns of coordinated behaviour and spot unusual activities in real-time. Additionally, working with other countries is important because many social media schemes operate internationally, making them more difficult to regulate.

Strengthening Cross-Border Cooperation Between SEBI and SEC

As financial markets become more connected worldwide, scams and cheating in the market happen all over, not just in one place. Fraudsters take advantage of weak spots in regulations by trading unfairly across different markets and using overseas accounts. This makes it tough for regulators to catch and penalize them. To address this, SEBI and the SEC have agreed to share information, conduct joint investigations, and coordinate enforcement actions. These partnerships help track international financial crimes like pump-and-dump schemes, insider trading, and wash trading, which often involve businesses in many countries. However, their success relies on how willing different countries are to cooperate and how quickly regulators

⁵⁶ International Organization of Securities Commissions, “Finfluencers” 18 (2024).

⁵⁷ “SEBI Amends Rules to Regulate Finfluencers”, The Economic Times, Aug. 30, 2024, available at: <https://economictimes.indiatimes.com/markets/stocks/news/sebi-amends-rules-to-regulate-finfluencers/articleshow/112921759.cms?from=mdr> (last visited on Mar. 31, 2025).

can get and analyse global transaction data. While these agreements have made it easier for countries to work together, even better tools are needed to handle more advanced financial crimes, especially in digital markets.

One major issue in enforcing laws across countries is the difference in their legal systems, court processes, and financial crime rules. Some countries act as safe havens for people who manipulate markets because they have weak regulations, mild punishments, or laws that make extradition difficult. This creates challenges for regulators like SEBI and the SEC when trying to catch offenders or freeze their assets in foreign accounts. International organizations, such as the International Organization of Securities Commissions, are working on agreements that allow quick cross-border monitoring and make regulations more uniform. Creating a global program to protect whistle-blowers could also encourage insiders and market players to report international fraud without fear of retaliation⁵⁸. Regulators need to use AI-powered systems and blockchain analytics to monitor manipulative actions on decentralized platforms, where criminals can operate across borders with little oversight. Enhancing global cooperation and using advanced technology are essential to maintaining honest financial markets in our increasingly connected world.

Emerging trends such as crypto market manipulation, social media-driven stock movements, and globalized securities fraud are reshaping the regulatory landscape. SEBI and the SEC must continue to innovate, collaborate, and enhance enforcement capabilities to address these challenges effectively. AI-driven monitoring systems, stronger cross-border regulatory cooperation, and investor education initiatives will be key to maintaining market integrity and investor confidence in the years ahead.

⁵⁸ Organisation for Economic Co-Operation and Development, “Committing to Effective Whistleblower Protection” (2016)

Conclusion and Recommendations

Policy Recommendations for Stronger Enforcement

To strengthen market manipulation regulations and enforcement, the following policy recommendations should be considered:

- i. **Adoption of AI-Driven Surveillance Systems:** SEBI and the SEC should enhance their use of AI and machine learning to detect unusual trading patterns, social media sentiment manipulation, and high-frequency trading abuses. Automated risk analysis tools should be deployed to identify coordinated pump-and-dump activities and insider trading networks.
- ii. **Stricter Regulations on Cryptocurrency and DeFi Markets:** SEBI should push for a clear legal framework to regulate cryptocurrency exchanges and decentralized finance platforms to prevent wash trading, spoofing, and front-running. The SEC should continue its crackdown on unregistered securities offerings in the crypto space and work with global regulators to curb cross-border digital asset fraud.
- iii. **Strengthening Cross-Border Cooperation:** SEBI and the SEC should expand their Memoranda of Understanding for real-time data sharing and coordinated enforcement actions. Global regulatory bodies like IOSCO and the Financial Stability Board should play a greater role in harmonizing international securities regulations.
- iv. **Enhanced Regulations on Social Media and Finfluencers:** SEBI and the SEC should mandate stricter disclosure norms for financial influencers promoting stocks or cryptocurrencies on social media, YouTube, and Telegram. AI-based monitoring tools should track social media platforms for coordinated misinformation campaigns that manipulate stock prices.
- v. **Faster Legal Proceedings and Stronger Penalties:** SEBI and the SEC should streamline investigation processes and reduce legal delays to ensure swift penalties for market manipulators. Harsher fines, extended trading bans, and criminal charges should be imposed on offenders to create a strong deterrence effect.

The Future of Market Manipulation Regulations

The future of market regulation will depend on the ability of regulators to evolve with technological advancements and new financial risks. As high-frequency trading, decentralized finance, and AI-driven market strategies become more prevalent, SEBI and the SEC must adopt cutting-edge regulatory technologies to stay ahead of market manipulators. Cross-border collaboration will be crucial, especially in tackling cryptocurrency fraud, offshore trading manipulations, and global securities fraud networks. Furthermore, investor education and public awareness initiatives will play a key role in preventing retail investors from falling victim to fraudulent schemes. Market participants must be encouraged to report suspicious activities, and whistleblower protections should be strengthened to facilitate better compliance. By leveraging technology, international cooperation, and stricter enforcement mechanisms, SEBI and the SEC can ensure the continued integrity, fairness, and transparency of the global securities markets in the years ahead.

This study examines how SEBI and the SEC approach the issue of market manipulation, focusing on their legal rules, enforcement methods, and use of technology. Both regulators have developed laws to combat fraud, insider trading, and price manipulation. Yet, new financial threats like cryptocurrency scams, high-frequency trading abuses, and social media-driven market manipulation continue to be challenging. SEBI's PFUTP Regulations, 2003, and the SEC's Securities Exchange Act of 1934 serve as enforcement foundations. However, the complexity of modern financial markets requires ongoing updates and international cooperation. The study highlights the importance of using AI-driven surveillance, implementing stricter cryptocurrency regulations, and improving social media monitoring to effectively detect and prevent fraud. Global collaboration among SEBI, the SEC, and other regulatory bodies is crucial for tracking financial crimes that cross borders and aligning enforcement actions. Additionally, speeding up legal processes and imposing stronger penalties can deter market manipulation. In the future, regulatory innovation, investor education, and technological progress are essential to maintain transparency, efficiency, and resilience in capital markets. SEBI and the SEC need to stay proactive in addressing emerging risks to uphold market integrity and instill confidence in investors in an increasingly digital and interconnected world.