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Trading Window Closures and the Rights of Immediate Relatives: A Proportionality Analysis

YUKTA SUNIL BAHETI*

ABSTRACT

The increasing reliance on automated compliance mechanisms within securities regulation has significantly transformed the enforcement landscape of insider trading laws in India. In furtherance of this shift, the Securities and Exchange Board of India ("SEBI"), through its Circular dated April 21, 2025, extended automated trading window closure restrictions to the immediate relatives of designated persons under the SEBI (Prohibition of Insider Trading) Regulations, 2015. The framework mandates PAN-based freezing of trading access during trading window closure periods through coordinated action by listed companies, depositories, and stock exchanges. While the circular seeks to strengthen market integrity and prevent inadvertent violations of insider trading norms, it simultaneously raises important constitutional and jurisprudential concerns regarding proportionality, privacy, and presumptive liability.

This article critically examines the legality and implications of extending automated restrictions to immediate relatives solely on the basis of familial association. It argues that the framework effectively introduces a form of "regulation by association," wherein restrictions are imposed not on the basis of demonstrated misconduct or individualized suspicion, but upon relational proximity to designated persons. The article contends that familial association alone cannot justify presumptive restriction, particularly in the absence of evidence establishing access to unpublished price sensitive information ("UPSI").

Using the proportionality doctrine developed by the Supreme Court in Modern Dental College & Research Centre v. State of Madhya Pradesh and K.S. Puttaswamy v. Union of India, the article evaluates whether the circular satisfies constitutional standards of necessity, minimal impairment, and balancing. It further argues that the framework may sacrifice individual autonomy and proportionality in pursuit of regulatory efficiency. While acknowledging the legitimacy of SEBI's anti-insider trading objectives, the article concludes that preventive securities regulation must remain constitutionally sustainable, narrowly tailored, and balanced against the financial autonomy and informational privacy of affected individuals.

* Author is a Student at Institute of Law, Nirma University, Gujarat, India.

I. Introduction

The regulation of insider trading has increasingly evolved from a disclosure-centric framework into a technology-driven compliance architecture aimed at preventive surveillance and automated enforcement. In India, the Securities and Exchange Board of India ("SEBI") has consistently expanded the scope of regulatory mechanisms under the SEBI (Prohibition of Insider Trading) Regulations, 2015 ("PIT Regulations") in order to strengthen market integrity and investor confidence[1]. The latest manifestation of this approach can be seen in SEBI Circular No. SEBI/HO/ISD/ISD-PoD-2/P/CIR/2025/55 dated April 21, 2025, which extends the automated implementation of trading window closure restrictions to the immediate relatives of designated persons ("DPs")[2].

The circular mandates the freezing of PAN-linked demat accounts of immediate relatives during trading window closure periods through a coordinated mechanism involving listed companies, depositories, and stock exchanges.[3] The objective behind the framework is apparently legitimate: to prevent inadvertent insider trading violations and strengthen compliance with the PIT Regulations. SEBI specifically justifies the framework as a measure intended "to ease the compliance" of insider trading norms and prevent non-compliances by designated persons.[4] However, the circular also raises significant constitutional and jurisprudential concerns regarding proportionality, financial autonomy, and presumptive liability. By extending automatic restrictions to individuals solely on the basis of familial relationship with a designated person, the framework appears to operate on a presumption that immediate relatives are probable conduits of unpublished price sensitive information ("UPSI"). Familial association alone cannot justify presumptive restriction, particularly in the absence of individualized evidence demonstrating possession, communication, or misuse of UPSI. In effect, the framework introduces a form of regulation by association wherein restrictions are imposed not because of demonstrated misconduct, but because of relational proximity to a regulated individual.

The issue becomes particularly significant when viewed through the lens of the proportionality

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[1] SEBI (Prohibition of Insider Trading) Regulations, 2015, Gazette of India, Extraordinary, Part III, Section 4 (Jan. 15, 2015).

[2] Securities and Exchange Board of India, Trading Window Closure Period under Clause 4 of Schedule B Read with Regulation 9 of SEBI (Prohibition of Insider Trading) Regulations, 2015 – Extension of Automated Implementation of Trading Window Closure to Immediate Relatives of Designated Persons, SEBI/HO/ISD/ISD-PoD-2/P/CIR/2025/55 (Apr. 21, 2025).

[3] Id. ¶¶ 7–13.

[4] Id. ¶ 3.

doctrine recognized by the Supreme Court in Justice K.S. Puttaswamy v. Union of India.[5] While the prevention of insider trading undoubtedly constitutes a legitimate regulatory objective, restrictions that interfere with financial autonomy and informational privacy must still satisfy standards of necessity and proportionality. The framework may sacrifice individual autonomy and proportionality in pursuit of regulatory efficiency. This concern becomes even more pronounced considering that insider trading may still be carried out through channels beyond immediate relatives, including proxies, shell entities, informal intermediaries, or offshore accounts. Consequently, the mechanism may simultaneously be overinclusive in restricting innocent individuals and underinclusive in addressing sophisticated forms of insider trading.

This article critically examines SEBI's 2025 circular through the lens of proportionality[6] and constitutional governance. It argues that although investor protection and market integrity remain compelling state interests, automated restrictions based solely upon familial association risk expanding insider trading enforcement beyond constitutionally sustainable limits.

II. Insider trading regulation and the expansion of automated compliance

The prohibition of insider trading under Indian securities law is principally governed by the SEBI (Prohibition of Insider Trading) Regulations, 2015, which seek to prevent trading on the basis of unpublished price sensitive information ("UPSI") and preserve investor confidence within the securities market.[7] The regulatory framework operates upon the recognition that certain individuals, by virtue of their position, professional association, or access to confidential corporate information, may possess informational advantages capable of materially influencing securities prices.

Under Regulation 2(1)(g) of the PIT Regulations, an "insider" includes any person who is either a connected person or in possession of or having access to UPSI.[8] The framework correspondingly identifies "designated persons" ("DPs") as individuals who, due to their functional role or professional responsibilities, are more likely to have access to unpublished information. Consequently, the PIT Regulations permit companies to impose trading window closures during periods where UPSI is likely to exist, particularly around the declaration of

[5] K.S. Puttaswamy v. Union of India, (2017) 10 SCC 1.
[6] Modern Dental College & Research Centre v. State of Madhya Pradesh, (2016) 7 SCC 353.
[7] SEBI (Prohibition of Insider Trading) Regulations, 2015, Gazette of India, Extraordinary, Part III, Section 4 (Jan. 15, 2015).
[8] Id. reg. 2(1)(g).

financial results.[9]

Clause 4 of Schedule B of the PIT Regulations specifically provides that designated persons and their immediate relatives shall not trade in securities when the trading window is closed.[10] Traditionally, the enforcement of such restrictions primarily operated through disclosure obligations, internal compliance mechanisms, and post-facto regulatory scrutiny. However, the 2025 SEBI circular significantly transforms this framework by introducing an automated and technology-driven enforcement mechanism directed not merely at designated persons, but also at their immediate relatives.[11]

The circular requires listed companies to provide details relating to the PAN, demat accounts, and identifying information of designated persons and their immediate relatives to the designated depositories.[12] Based upon this information, depositories and stock exchanges are instructed to automatically freeze PAN-linked trading access during trading window closure periods.[13] The mechanism extends to both on-market and off-market transactions, including the creation of pledges and encumbrances.[14] The framework thereby converts what was previously a compliance obligation into an automated restriction operating through integrated surveillance architecture across exchanges and depositories.

From a regulatory standpoint, SEBI's objective is understandable. Insider trading enforcement frequently encounters evidentiary limitations because transactions may be executed discreetly and information trails are often difficult to establish conclusively. Automated compliance mechanisms therefore appear intended to reduce inadvertent violations and strengthen preventive monitoring.[15] Nevertheless, the expansion of automated restrictions to immediate relatives raises deeper concerns regarding the nature and limits of presumptive liability within securities regulation.

The circular effectively assumes that immediate relatives constitute probable channels through which UPSI may be communicated or exploited. Yet the framework does not distinguish between relatives who may genuinely possess access to confidential information and those who remain entirely independent in their financial decision-making. A spouse, parent, sibling, or

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[9] Id. sched. B, cl. 4.
[10] Id.
[11] Securities and Exchange Board of India, Trading Window Closure Period under Clause 4 of Schedule B Read with Regulation 9 of SEBI (Prohibition of Insider Trading) Regulations, 2015 – Extension of Automated Implementation of Trading Window Closure to Immediate Relatives of Designated Persons, SEBI/HO/ISD/ISD-PoD-2/P/CIR/2025/55 (Apr. 21, 2025).
[12] Id. ¶¶ 1–4.
[13] Id. ¶¶ 7–9.
[14] Id. ¶ 8.
[15] Id. ¶ 3.

adult child may therefore become subject to trading restrictions solely because of familial association with a designated person, irrespective of whether any actual communication of UPSI has occurred.

This becomes particularly problematic because the restriction is triggered not through individualized assessment or suspicion, but through automatic classification. The framework arguably introduces a form of status-based regulatory restraint in which the existence of a family relationship itself becomes sufficient justification for restricting financial activity. Administrative convenience cannot become a substitute for individualized assessment, especially where regulatory mechanisms interfere with personal financial autonomy and market participation rights.

Moreover, the framework's effectiveness remains contestable even on its own preventive rationale. Insider trading, particularly in sophisticated financial markets, may easily occur through channels beyond immediate relatives, including informal intermediaries, proxy traders, shell entities, offshore accounts, or social and professional networks not captured within the regulatory definition of "immediate relatives." Consequently, the mechanism appears simultaneously underinclusive and overinclusive: underinclusive because it may fail to address sophisticated forms of illicit trading, and overinclusive because it imposes blanket restrictions upon individuals absent demonstrable wrongdoing or access to UPSI.

III. Proportionality, privacy, and the limits of preventive securities regulation

The constitutional validity of modern regulatory frameworks increasingly depends not merely upon the legitimacy of the objective sought to be achieved, but also upon the proportionality of the mechanisms employed to achieve that objective. Indian constitutional jurisprudence has consistently recognized that even where the State pursues a legitimate public interest, restrictions imposed upon individual rights must satisfy standards of necessity, rationality, and minimal impairment.[16] In Modern Dental College & Research Centre v. State of Madhya Pradesh, the Supreme Court emphasized that limitations imposed by the State must not be excessive or disproportionate to the object sought to be achieved.[17] The doctrine was subsequently reaffirmed and constitutionally entrenched in K.S. Puttaswamy v. Union of India, wherein the Court held that restrictions affecting privacy and autonomy must satisfy the tests

[16] Modern Dental College & Research Centre v. State of Madhya Pradesh, (2016) 7 SCC 353.
[17] Id. at ¶¶ 60–63.

of legality, legitimate aim, proportionality, and procedural safeguards.[18]

SEBI's 2025 circular would likely satisfy the first stage of proportionality analysis. The prevention of insider trading and preservation of market integrity undoubtedly constitute legitimate state objectives within securities regulation. The framework may also satisfy the requirement of rational nexus, insofar as restricting trading activity of persons likely to possess UPSI bears a logical connection to the prevention of unlawful insider trading. However, the circular becomes considerably more contestable at the stages of necessity and balancing.

The doctrine of proportionality requires not merely that a measure be capable of achieving its objective, but that the State adopt the least restrictive alternative reasonably available.[19] The circular, however, imposes automated trading restrictions upon all immediate relatives of designated persons irrespective of individualized evidence of access to UPSI, suspicious trading conduct, or demonstrable communication of confidential information. The mechanism therefore operates through a broad presumption that familial proximity itself creates a sufficient probability of informational access.

Such a presumption raises concerns of overbreadth. Familial association alone cannot justify presumptive restriction, particularly where the restriction interferes with independent financial decision-making of individuals who may have no connection whatsoever with the functioning of the listed company. An adult child residing independently, a financially autonomous spouse, or a parent with no involvement in corporate affairs may nevertheless find their trading activity automatically frozen solely because of their relationship with a designated person. The framework thereby risks conflating relational proximity with culpable access.

This concern becomes more pronounced because the circular institutionalizes restrictions through automated surveillance architecture. The mandatory collection and verification of PAN details, identification of demat accounts, and automated freezing of transactions create a form of continuous financial monitoring extending beyond the designated person to private individuals linked through family status.[20] While securities regulation necessarily involves elements of disclosure and monitoring, the expansion of surveillance-based enforcement to third parties raises legitimate concerns regarding informational privacy and financial autonomy under Article 21.

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[18] K.S. Puttaswamy v. Union of India, (2017) 10 SCC 1.

[19] Modern Dental College, (2016) 7 SCC at ¶ 63.

[20] Securities and Exchange Board of India, Trading Window Closure Period under Clause 4 of Schedule B Read with Regulation 9 of SEBI (Prohibition of Insider Trading) Regulations, 2015 – Extension of Automated Implementation of Trading Window Closure to Immediate Relatives of Designated Persons, SEBI/HO/ISD/ISD-PoD-2/P/CIR/2025/55, ¶¶ 2–10 (Apr. 21, 2025).

Moreover, the framework appears to prioritize administrative convenience over individualized assessment. SEBI explicitly states that the mechanism is intended "to ease compliance" and prevent inadvertent non-compliances.[21] While regulatory efficiency remains an important administrative objective, constitutional governance requires that efficiency-based considerations remain balanced against individual rights and procedural fairness. Administrative convenience cannot become a substitute for individualized assessment where restrictions directly interfere with lawful market participation.

The proportionality concerns are further aggravated by the framework's uncertain efficacy. Sophisticated insider trading rarely operates through easily identifiable or formally documented familial channels alone. Transactions may be executed through proxies, offshore entities, shell structures, professional intermediaries, or informal social networks falling entirely outside the scope of the circular. Consequently, the framework appears simultaneously underinclusive and overinclusive: underinclusive because it may fail to detect sophisticated misconduct, and overinclusive because it imposes blanket restraints upon individuals absent individualized suspicion or demonstrable wrongdoing.

This tension reflects a broader transformation within securities regulation from reactive enforcement toward preventive and surveillance-oriented governance. While preventive regulation undoubtedly serves important market objectives, constitutional principles require that such mechanisms remain proportionate, narrowly tailored, and procedurally constrained. Otherwise, the pursuit of market integrity risks gradually normalizing presumptive restrictions upon individuals not because of proven misconduct, but because of their relational proximity to regulated actors. The framework may therefore sacrifice individual autonomy and proportionality in pursuit of regulatory efficiency.

IV. Conclusion

The evolution of insider trading regulation in India reflects an increasing shift toward preventive, technology-driven compliance mechanisms designed to strengthen market integrity and investor confidence. SEBI's 2025 circular extending automated trading window restrictions to immediate relatives of designated persons represents a significant development within this broader transition toward surveillance-oriented securities regulation. The objective underlying the framework is undoubtedly legitimate. Preventing insider trading, preserving investor trust, and ensuring fair market conduct remain essential regulatory concerns within modern capital

[21] Id. ¶ 3.

markets.

However, the legitimacy of a regulatory objective cannot by itself immunize the means adopted from constitutional scrutiny. By imposing automated trading restrictions upon immediate relatives solely on the basis of familial association, the framework risks expanding preventive securities regulation into a form of presumptive restraint insufficiently grounded in individualized assessment. Familial association alone cannot justify presumptive restriction where no demonstrable evidence exists indicating access to or misuse of unpublished price sensitive information. The circular's reliance upon automated PAN-based freezing mechanisms consequently raises important concerns regarding overbreadth, informational privacy, financial autonomy, and proportionality.

The framework also reveals the growing tension between administrative efficiency and constitutional governance in contemporary regulatory systems. While automated enforcement mechanisms may reduce compliance burdens and facilitate preventive monitoring, regulatory convenience cannot become an independent justification for imposing blanket restrictions upon individuals absent individualized suspicion. This concern becomes particularly significant where the mechanism itself may remain only partially effective in addressing sophisticated forms of insider trading capable of operating through channels beyond immediate familial relationships.

Ultimately, the challenge before securities regulation is not merely to ensure stronger enforcement, but to ensure constitutionally sustainable enforcement. Preventive mechanisms aimed at protecting market integrity must remain proportionate, narrowly tailored, and procedurally balanced against individual rights. Otherwise, the pursuit of regulatory efficiency risks normalizing restrictions based not upon demonstrable misconduct, but upon relational proximity alone. The framework may therefore sacrifice individual autonomy and proportionality in pursuit of regulatory efficiency, thereby raising broader questions regarding the permissible constitutional limits of preventive financial regulation in India.

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