

SC ruling seen shaping Sebi's fraud-finding frame

By Reena Zachariah, ET Bureau Last Updated: Jun 08, 2026, 07:30:00 AM IST

Synopsis: In a ruling, the apex court had said that investor injury alone can establish fraud, although the loss isn't quantifiable



India's fraud enforcement regime has entered a new phase, with market regulator Sebi resetting the legal bar for what counts as fraud in securities law.

The shift draws on the recent Supreme Court ruling in the Reliance Industries vs Sebi case. In this case, the court ruled that demonstration of investor injury is itself sufficient ground to establish fraud.

Where no injury or loss can be quantified, wrongful intention must instead be inferred from surrounding circumstances.

It is this intent element that Sebi applied in its last week's ex-parte interim order against Rajesh Exports. While no direct investor loss was established, Sebi held that investors were induced to invest on the basis of a misleading picture of the gold refiner's financial position.

"Going forward, Sebi's investigations on fraud will be guided by the supreme court's interpretation," said a person familiar with the development.

Shruti Rajan, partner, financial regulatory, Trilegal, said the court had "crystallised two tenets — where you cannot prove intention, you must prove injury, and where you can prove intention, injury is irrelevant." With Sebi applying the court's observations in Rajesh Exports, Rajan said "it is a sign that the regulator is looking to create more consistency in precedent making across its enforcement process."

Sandeep Parekh, managing partner of Finsec Law Advisors, said the court had "reaffirmed that intention and act of injury are necessary ingredients of fraud, and that a breach of position limits is by itself a reporting default and not deceit." Drawing an analogy, he said driving above the 60 kmph speed limit on a highway does not make it an attempt to murder someone, "specially if no one was hit and even more so when the highway did not even have any pedestrians. Conversely, hitting someone deliberately, even at 30 kmph, could still be murder."

In its Rajesh Exports order, Sebi observed that financial statements of a listed company are the primary documents that investors rely upon to take informed decisions and must be free from any misstatement or misrepresentation — a principle it held Rajesh Exports had breached, with revenues aggregating to 15.15 lakh crore, or 99.80% of total revenue between FY21 and FY25, found to be falsely stated

