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THE PROTECTION OF SMALL INVESTORS IN CASES OF MARKET MANIPULATION: EVALUATING THE ROLE OF THE INVESTOR PROTECTION FUND (IPF)

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ABSTRACT

Investor protection is central to the integrity and trustworthiness of capital markets. While India's Investor Protection Fund (IPF), managed by SEBI and individual stock exchanges, was designed to safeguard retail investors from broker defaults or fraudulent activities, its real-world impact has often been limited. The process is burdened by the requirement that a broker must first be officially declared a "defaulter" before investors can seek compensation. This condition not only delays justice but often leaves small investors helpless – struggling for redress in an unfamiliar and technical system.

By contrast, the United States Securities and Exchange Commission (SEC) offers a more responsive and investor-centric model through its Fair Fund mechanism. Once a securities violation is established and penalties imposed, the SEC can proactively begin the process of compensating affected investors – without waiting for any formal declaration of default. This model, rooted in fairness and efficiency, includes independent oversight, transparent procedures, and often invites public participation in how funds are distributed.

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In India, restitution efforts have often only succeeded due to Supreme Court intervention, such as in the Sahara case or IPO scam cases. These court-led directives have pushed SEBI to form committees and directly oversee refunds, highlighting that in the absence of judicial pressure, the IPF framework struggles to deliver results on its own.

Compounding the issue is low investor awareness – many retail investors remain unaware of their rights or how to claim compensation. To truly protect investors, India must shift toward a model that is proactive, transparent, and inclusive. Embracing key elements from the Fair Fund approach could mark a meaningful step in restoring investor trust and strengthening market integrity.

KEYWORDS: Investor Protection Fund (IPF), COVID-19, Procedural Safeguards, Algorithmic manipulation, off-exchange platforms.

I. INTRODUCTION

On January 17, 2024, a sharp decline of approximately 4.82% in the Bank Nifty shook the Indian financial markets. While this market event triggered significant losses for several retail investors, it simultaneously brought massive profits of around ₹750 crore to the American trading firm Jane Street. The situation gained further notoriety when the Securities and Exchange Board of India (SEBI) initiated investigations and impounded about ₹4,000 crore, alleging that Jane Street had used manipulative and deceptive techniques to gain an unfair advantage in the Indian stock market. The case highlighted a serious concern: what safeguards and remedial mechanisms exist for protecting the interests of small retail investors in such scenarios?

The rise of retail investors posts the COVID-19 pandemic has fundamentally altered the Indian investment landscape. According to a report by Mint, “there has been a significant increase in the participation of students, employees, and other small savers

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in the Indian capital markets, with domestic individual investors playing an increasingly vital role. The share of domestic institutional investors (DIIs) and retail investors in the free-float market reached 62.9% by March 2024, up from 55.1% in March 2014”².

In this article, we seek to explore the remedies available for retail investors who face losses due to fraudulent and manipulative acts by institutional players or trading firms. We evaluate whether the Investor Protection Fund (IPF), as governed by SEBI and various laws, can serve as an effective remedy in such cases. This paper also compares the Indian framework with the United States’ Fair Fund mechanism under the Securities and Exchange Commission (SEC) to draw meaningful insights and propose reforms.

II. INVESTOR PROTECTION FUND (IPF) UNDER INDIAN LAW

A. Statutory Basis and Purpose of Section 125

Section 125 of the Companies Act³, 2013 is the cornerstone legislative provision that governs the Investor Education and Protection Fund (IEPF). This section reflects the Indian legislature's intent to build a structured mechanism for investor protection, education, and redressal—particularly in cases involving unclaimed financial assets and malfeasance by companies or their officers.

² Retail investor sentiment to shape Indian stock market in coming weeks: Kotak Securities (Livemint, 12 February 2025) <https://www.livemint.com/market/stock-market-news/retail-investor-sentiment-to-shape-indian-stock-market-in-coming-weeks-kotak-securities-11739358403551.html> accessed 4 August 2025

³ Companies Act 2013, s 125 (India)

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The IEPF Authority, established by the Central Government under this section, is a statutory body under the Ministry of Corporate Affairs (MCA), responsible for managing the fund. According to Section 125(3)⁴, the objectives of the IEPF include:

- Refund of unclaimed dividends;
- Transfer of matured deposits;
- Return of matured debentures;
- Repayment of application money due for refund;
- Refund of interest accrued on the above;
- Reimbursement of legal expenses incurred by investors in pursuing actions to recover losses caused by wrongful actions; and
- Promotion of investor awareness and education (Companies Act, 2013; MCA Notification S.O. 1353(E), dated 24.05.2016)⁵.

This indicates that while the primary intent is to safeguard dormant investor funds, the section also empowers the IEPF Authority to intervene in cases where investors suffer due to misrepresentation, fraud, or wrongful conduct by entities operating within the corporate structure.

*"The objective of Section 125 is not merely to manage unclaimed dividends but to act as a broader umbrella mechanism to educate investors and ensure financial restitution in appropriate cases."*⁶

⁴ Companies Act 2013, s 125 (India)

⁵ Companies Act 2013, s 125; Ministry of Corporate Affairs, Notification S.O. 1353(E) (24 May 2016)

⁶ Ravi Puliani and Mahesh Puliani, **Companies Act, 2013 with Rules** (LexisNexis 2020) 356

B. Detailed Analysis of Sub-section (3) of Section 125

Sub-section (3) of Section 125 is key for understanding how investor redressal can occur using the IEPF. It authorizes the utilization of the Fund for:

“... distribution of any disgorged amount among eligible and identifiable applicants for shares or debentures, shareholders, debenture-holders, depositors or other investors who have suffered losses due to wrong actions by any person, in accordance with the rules made by the Central Government.”⁷

The provision of disgorgement is a unique and powerful remedial tool used by securities regulators to address wrongful gains acquired through illegal conduct such as insider trading, fraudulent public offerings, and other manipulative practices. The term *disgorged amount* refers to the profits earned unlawfully that must be returned, not for punitive purposes, but to compensate victims or restore market integrity. In the United States, this principle has been institutionalized under Section 308(a) of the Sarbanes-Oxley Act 2002, which empowers the SEC to establish Fair Funds for distributing both civil penalties and disgorged profits to affected investors.⁸ The U.S. Supreme Court in *SEC v Liu* held that disgorgement is an equitable remedy permissible only when it is tied to net profits and used to benefit victims, thus reinforcing its compensatory nature.⁹

In India, the Securities and Exchange Board of India (SEBI) exercises disgorgement powers under Section 11B of the SEBI Act, 1992.¹⁰ However, unlike the U.S. system,

⁷ Companies Act 2013, s 125 (India)

⁸ Sarbanes-Oxley Act 2002, s 308(a).

⁹ *Liu v Securities and Exchange Commission*, 140 S Ct 1936 (2020) (US Supreme Court)

¹⁰ Securities and Exchange Board of India Act 1992, s 11B

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Indian regulators have traditionally deposited such funds into government accounts or regulatory reserves, rather than redirecting them to affected investors. It was only in exceptional cases, such as the Sahara case, where the Supreme Court of India directly intervened and ordered that the fraudulently collected funds be refunded to investors, demonstrating that judicial oversight is often essential for disgorgement to serve a compensatory role in India.¹¹

Therefore, disgorgement stands at the intersection of law, equity, and investor protection. When structured properly, it can restore investor trust and reinforce regulatory credibility by ensuring that ill-gotten gains do not remain with the wrongdoer.

This reflects a quasi-restorative justice approach embedded in corporate law, aligning it with practices like the U.S. SEC Fair Fund under the Sarbanes-Oxley Act of 2002¹². Similar to the SEC's mechanism, the IEPF is allowed to distribute the disgorged funds to affected investors, making this provision a powerful statutory remedy

C. Transfer and Management of Funds

Under the IEPF Authority (Accounting, Audit, Transfer and Refund) Rules, 2016¹³, any company in which the dividend or matured deposit remains unpaid or unclaimed for a period of seven consecutive years is required to transfer the amount to the IEPF.

¹¹ **Sahara India Real Estate Corp Ltd v SEBI** (2012) 10 SCC 603 (SC).

¹² Sarbanes-Oxley Act of 2002, Pub L No 107-204, 116 Stat 745 (2002)

¹³ **Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016**, Gazette of India, GSR 854(E), 5 September 2016.

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The funds are managed by the Investor Education and Protection Fund Authority, which has quasi-judicial powers under the MCA and includes representatives from SEBI, RBI, and other financial regulatory bodies.

Rule 7¹⁴ of the IEPF Rules also provides a mechanism for the refund of claims made by rightful investors, subject to adequate documentary proof and scrutiny.

D. Judicial Interpretation and Scope of Application

There has been limited but evolving jurisprudence around the interpretation of Section 125(3)¹⁵. While courts have largely dealt with it in the context of unclaimed dividends, a few cases illustrate the provision's potential to be interpreted expansively, especially in fraud case.

- In *SEBI v. Sahara India Real Estate Corp Ltd*¹⁶, the Supreme Court ordered a special refund mechanism to repay investors using disgorged funds. Although not directly under Section 125, the ruling sets a precedent for statutory fund-based investor relief, similar to the IEPF mechanism. [*SEBI v. Sahara* (2012) 10 SCC 603].

These rulings, while not frequent, pave the way for judicial creativity in using Section 125 to compensate defrauded investors, especially in high-profile scams where restitution mechanisms are unclear.

¹⁴ **Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016**, r 7(1), GSR 854(E), 5 September 2016

¹⁵ Companies Act 2013, s 125 (India)

¹⁶ **Securities and Exchange Board of India v Sahara India Real Estate Corporation Ltd & Ors**, Civil Appeals 9813 & 9833 of 2011 (Supreme Court of India, 31 August 2012) https://www.sebi.gov.in/sebi_data/attachdocs/1351500106870.pdf accessed 7 August 2025.

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On 30 May 2024, the Securities and Exchange Board of India (SEBI) issued a pivotal circular titled *“Comprehensive Guidelines for Investor Protection Fund (IPF) and Investor Services Fund (ISF) for Stock Exchanges having Commodity Derivatives Segment”*¹⁷. The issuance of these guidelines was aimed at strengthening the framework for investor compensation and accountability in India’s fast-growing commodity derivatives market.

E. Structure and Management of the IPF

Under the 2024 guidelines, each stock exchange operating in the commodity derivatives segment is mandated to create a separate IPF Trust, composed of up to five trustees. These trustees may include exchange representatives and public interest members, thereby ensuring checks and balances. This separation of powers and formalization ensures independent governance of investor restitution funds, enhancing transparency and accountability.

Clause 9 of the SEBI Circular is critical and provides: *“The amount of IPF shall be utilised to meet the legitimate investment claims of the clients of the defaulting trading members.”*¹⁸

¹⁷ Securities and Exchange Board of India, ‘**Comprehensive Guidelines for Investor Protection Fund (IPF) and Investor Services Fund (ISF) for Stock Exchanges having Commodity Derivatives Segment**’ (Circular No SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/71, 30 May 2024) https://www.sebi.gov.in/legal/circulars/may-2024/comprehensive-guidelines-for-investor-protection-fund-ipf-and-investor-services-fund-isf-for-stock-exchanges-having-commodity-derivatives-segment_83718.html accessed 1 August 2025

¹⁸ Securities and Exchange Board of India, ‘**Comprehensive Guidelines for Investor Protection Fund (IPF) and Investor Services Fund (ISF) for Stock Exchanges having Commodity Derivatives Segment**’ (Circular No SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/71, 30 May 2024) cl 9 https://www.sebi.gov.in/legal/circulars/may-2024/comprehensive-guidelines-for-investor-protection-fund-ipf-and-investor-services-fund-isf-for-stock-exchanges-having-commodity-derivatives-segment_83718.html accessed 1 August 2025.

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This clause provides the statutory mandate for compensating clients in the event of fraud, insolvency, or default by trading members.

Sources of the IPF

The circular enumerates a multi-source funding mechanism to ensure the financial adequacy of the Investor Protection Fund:

- 1% of turnover or ₹10 lakh, whichever is higher, contributed by the exchange annually.
- Interest earned from investments made out of the IPF corpus.
- Penalties and fines collected from defaulting trading members.
- Additional contributions directed by SEBI in exigent circumstances.

These mechanisms ensure the fund is well-resourced to handle large-scale defaults or restitution scenarios.

Significance of Clause 9¹⁹: Investor Compensation

The inclusion of Clause 9 enables legal backing for IPF utilization in cases of default or fraud, as demonstrated in precedent-based enforcement in securities law globally. In particular, if trading members (brokers) engage in market manipulation,

¹⁹ Securities and Exchange Board of India, '**Comprehensive Guidelines for Investor Protection Fund (IPF) and Investor Services Fund (ISF) for Stock Exchanges having Commodity Derivatives Segment**' (Circular No SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/71, 30 May 2024) cl 9 https://www.sebi.gov.in/legal/circulars/may-2024/comprehensive-guidelines-for-investor-protection-fund-ipf-and-investor-services-fund-isf-for-stock-exchanges-having-commodity-derivatives-segment_83718.html accessed 1 August 2025

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unauthorized trading, or misappropriation, the IPF provides the first layer of financial recourse to affected investors.

F. Comparative Perspective

This mechanism aligns Indian regulatory practice with international norms like:

- The Financial Services Compensation Scheme (FSCS)²⁰ in the UK.
- The Fair Fund provisions under Section 308(a) of the Sarbanes-Oxley Act²¹ in the United States.

Such comparative models indicate that SEBI's framework represents a step toward transnational regulatory harmonisation.

III. PROCEDURAL SAFEGUARDS FOR CLAIMS UNDER IPF

Clause 3 of the 2024 SEBI²² guidelines emphasize the process by which claims are to be invited. Stock exchanges are required to publish public notices in one English and one vernacular newspaper. In the present digital age, there is an additional mandate to issue notifications via email and SMS to investors. Notably, a minimum notice period of one year must be observed.

²⁰ Financial Services Compensation Scheme, **About Us** (FSCS) <https://www.fscs.org.uk/about-us/> accessed 1 August 2025.

²¹ Sarbanes–Oxley Act of 2002, Pub L No 107-204, § 308(a), 116 Stat 745 (USA).

²² Securities and Exchange Board of India, **‘Comprehensive Guidelines for Investor Protection Fund (IPF) and Investor Services Fund (ISF) for Stock Exchanges having Commodity Derivatives Segment’** (Circular No SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/71, 30 May 2024) cl 3 https://www.sebi.gov.in/legal/circulars/may-2024/comprehensive-guidelines-for-investor-protection-fund-ipf-and-investor-services-fund-isf-for-stock-exchanges-having-commodity-derivatives-segment_83718.html accessed 1 August 2025.

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The public notice must include:

- Details of the claim procedure.
- Maximum compensation allowed per investor.
- Last date for submitting claims.

Once the defaulter's assets are realized, the proceeds should be used to settle the claims. If insufficient, IPF resources should be deployed. The guidelines clearly specify that claim settlement should not be delayed even if the defaulter's assets have not been realized. Any recovered funds after claim settlement should be credited back to the IPF Trust.

A. The Plight of the Small Investor: Unanswered Questions

Despite the robustness of SEBI's regulatory architecture and the procedural safeguards embedded within the Investor Protection Fund (IPF) guidelines, the Jane Street incident has revealed a conspicuous regulatory lacuna – especially concerning the protection of small retail investors against sophisticated, non-domestic financial actors.

B. The Core Problem: Applicability of IPF to Non-Registered Entities

The primary concern is whether IPF can be triggered in scenarios where the alleged wrongdoer is not a registered Indian intermediary or trading member. In the case of Jane Street, a prominent US-based proprietary trading firm, although substantial investor losses reportedly occurred due to high-frequency and algorithmic trading anomalies, the company is not registered as a trading member under the SEBI (Stock Brokers) Regulations, 1992. Therefore, Clause 9 of the May 2024 IPF guidelines, which

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permits use of IPF only for "*legitimate investment claims of the clients of defaulting trading members*"²³, does not technically apply.

As a result, unless a stock exchange or SEBI formally declares an entity a "defaulting trading member", investors affected by the actions of such entities fall outside the protective remit of the IPF.

This legal loophole effectively leaves investors without a compensation pathway, notwithstanding the presence of regulatory safeguards on paper.

C. Absence of Statutory Duty on Stock Exchanges

Compounding this issue is the absence of a statutory obligation for stock exchanges to proactively declare a trading member in default unless such default meets predefined criteria—typically related to financial insolvency, regulatory breach, or non-settlement of dues.²⁴ Algorithmic manipulation, even when suspected, may not rise to the level of "default" unless clear-cut mens rea or systemic risk is established. In the Jane Street case, the lack of such a declaration means the IPF remains inaccessible to impacted retail investors.

This raises a pertinent question: Who protects the Indian investor in a borderless trading environment dominated by high-frequency, algorithm-driven actors?

²³ Securities and Exchange Board of India, '**Comprehensive Guidelines for Investor Protection Fund (IPF) and Investor Services Fund (ISF) for Stock Exchanges having Commodity Derivatives Segment**' (Circular No SEBI/HO/MRD/MRD-PoD-1/P/CIR/2024/71, 30 May 2024) cl 9 https://www.sebi.gov.in/legal/circulars/may-2024/comprehensive-guidelines-for-investor-protection-fund-ipf-and-investor-services-fund-isf-for-stock-exchanges-having-commodity-derivatives-segment_83718.html accessed 1 August 2025.

²⁴ NSE, **Declaration of Default by Trading Member** (NSE India, updated 2 January 2023) <https://www.nseindia.com/trade/membership-default-declaration> accessed 2 August 2025.

D. Need for Regulatory Recalibration

The evolution of securities markets necessitates that the regulatory response must adapt beyond territorial and definitional constraints. The Securities Contracts (Regulation) Act, 1956²⁵ and the Companies Act, 2013,²⁶ while strong in principle, do not directly address the kind of cross-border algorithmic trade manipulations highlighted in this incident.

This disconnects between the global nature of trading strategies and the territorial limitations of investor compensation frameworks places Indian investors at a systemic disadvantage.

E. Judicial or Legislative Recourse

In the absence of proactive intervention by SEBI or an amendment to the IPF guidelines to include *foreign entities operating through domestic exchanges*, the only viable recourse may lie in:

- Judicial interpretation, expanding the definition of "default" to include entities causing systematic investor harm; or
- Legislative reform, introducing investor restitution mechanisms that are *technology-neutral* and applicable regardless of the domicile of the wrongdoer.

²⁵ The Securities Contracts (Regulation) Act 1956, Act No 42 of 1956

²⁶ The Companies Act 2013, Act No 18 of 2013.

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Thus, without institutional innovation and responsive policy recalibration, retail investors will continue to suffer uncompensated losses, despite the existence of investor protection frameworks in theory.

IV. COMPARATIVE ANALYSIS: U.S. FAIR FUND MECHANISM UNDER SEC

The United States offers a structured and enforceable approach to investor compensation through the **Fair Fund** mechanism, a notable innovation introduced under **Section 308(a)** of the **Sarbanes-Oxley Act, 2002**²⁷. This provision authorises the **Securities and Exchange Commission (SEC)** to use collected civil penalties and disgorged profits to compensate defrauded investors, instead of remitting such funds to the U.S. Treasury.

This legislative move represents a shift towards investor-centric enforcement, creating a legal avenue for financial restitution in cases of securities law violations. The SEC subsequently promulgated a detailed regulatory framework under **Rules 1100 to 1106 of the SEC Rules of Practice**²⁸, which governs the administration, distribution, and procedural safeguards associated with Fair Funds.

Key Provisions under the SEC Rules of Practice:

- **Rule 1100**²⁹: Establishes the basis for creating a Fair Fund when penalties or disgorgement is ordered.

²⁷ Sarbanes-Oxley Act of 2002, Pub L No 107-204, § 308(a), 116 Stat 745 (2002).

²⁸ Securities and Exchange Commission, **Rules of Practice: Fair Fund and Disgorgement Plans** (PDF, 2018) Rules 1100–1106 <https://www.sec.gov/about/rules-of-practice-2018.pdf> accessed 2 August 2025.

²⁹ Securities and Exchange Commission, **Rules of Practice: Fair Fund and Disgorgement Plans** (PDF, 2018) Rule 1100 <https://www.sec.gov/about/rules-of-practice-2018.pdf> accessed 2 August 2025.

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- **Rule 1101³⁰**: Requires submission of a proposed Plan of Distribution within **60 days** of fund creation.
- **Rule 1102³¹**: Outlines eligibility criteria and mechanisms for distribution to harmed investors.
- **Rule 1103³²**: Mandates public notification of the proposed plan to allow stakeholder awareness and input.
- **Rule 1104³³**: Grants affected parties a **30-day window** to file written objections to the distribution plan.
- **Rule 1105³⁴**: Provides for the appointment of a **Fund Administrator** to ensure impartial management and execution.
- **Rule 1106³⁵**: Ensures judicial review and appellate rights to any party aggrieved by the distribution plan.

These provisions offer a **transparent, accountable, and participatory framework** that balances enforcement with remedial justice.

³⁰ Securities and Exchange Commission, **Rules of Practice: Fair Fund and Disgorgement Plans** (PDF, 2018) Rules 1101 <https://www.sec.gov/about/rules-of-practice-2018.pdf> accessed 2 August 2025.

³¹ Securities and Exchange Commission, **Rules of Practice: Fair Fund and Disgorgement Plans** (PDF, 2018) Rules 1102 <https://www.sec.gov/about/rules-of-practice-2018.pdf> accessed 2 August 2025.

³² Securities and Exchange Commission, **Rules of Practice: Fair Fund and Disgorgement Plans** (PDF, 2018) Rules 1103 <https://www.sec.gov/about/rules-of-practice-2018.pdf> accessed 2 August 2025.

³³ Securities and Exchange Commission, **Rules of Practice: Fair Fund and Disgorgement Plans** (PDF, 2018) Rules 1104 <https://www.sec.gov/about/rules-of-practice-2018.pdf> accessed 2 August 2025.

³⁴ Securities and Exchange Commission, **Rules of Practice: Fair Fund and Disgorgement Plans** (PDF, 2018) Rules 1105 <https://www.sec.gov/about/rules-of-practice-2018.pdf> accessed 2 August 2025.

³⁵ Securities and Exchange Commission, **Rules of Practice: Fair Fund and Disgorgement Plans** (PDF, 2018) Rules 1106 <https://www.sec.gov/about/rules-of-practice-2018.pdf> accessed 2 August 2025.

V. COMPARISON WITH INDIA'S IPF

India's Investor Protection Fund (IPF), though created with the intent to safeguard retail investors from broker defaults and market misconduct, operates within a comparatively constrained and reactive framework. Administered at the stock exchange level and overseen by SEBI, the IPF's compensatory mechanism is only triggered once a trading member is formally declared a "defaulter" by the exchange. This procedural prerequisite often delays investor relief and limits the IPF's application to conventional brokerage-related defaults. In contrast, the United States Securities and Exchange Commission (SEC) employs the Fair Fund mechanism, which activates restitution processes once a securities law violation is established and monetary penalties are levied – without requiring a formal declaration of default. This distinction allows the U.S. model to respond more dynamically and promptly to financial misconduct. Moreover, unlike in India where collected penalties may be diverted into the Consolidated Fund of India or regulatory reserves without directly benefiting victims, the SEC's Fair Fund permits these penalties to be distributed among harmed investors. This system is further enhanced by judicial oversight, appointment of independent fund administrators, and structured procedures such as public notice and comment, all of which promote transparency, participation, and efficiency in investor compensation.

A. Empirical Impact

According to a study by **Khanna and Zaring**³⁶, the Fair Fund mechanism has distributed over **\$14 billion** to investors since its inception, signifying its effectiveness and popularity among regulatory remedies in the U.S. capital market enforcement ecosystem. It also reflects the SEC's dual mandate of investor protection and market integrity being pursued simultaneously.

VI. CASE LAW AND PRECEDENTS IN INDIA

A. The Sahara Scam³⁷

The Sahara case is a rare and notable example where investor funds were successfully refunded, but only after direct intervention by the Supreme Court of India. In 2012, the Court ruled that Sahara India Real Estate Corporation Limited (SIRECL) and Sahara Housing Investment Corporation Limited (SHICL) had illegally raised over ₹24,000 crore from nearly 3 crore investors through optionally fully convertible debentures (OFCDs) without complying with SEBI regulations. Recognizing the scale of the violation and the risk to retail investors, the Court appointed a special committee to oversee the recovery and refund process.³⁸ The Court empowered SEBI to auction Sahara's properties and recover the funds required to repay the investors.³⁹ This unprecedented judicial action ensured accountability and restitution, setting a benchmark for regulatory enforcement. However, the case also highlights the limitations of existing investor protection mechanisms like the Investor Protection Fund (IPF), which would not have provided such large-scale relief without judicial intervention.

B. Roopalben Nareshbhai Panchal IPO Scam⁴⁰

³⁷ **Securities and Exchange Board of India v Sahara India Real Estate Corporation Ltd** (2012) 10 SCC 603 (SC)

³⁸ Securities and Exchange Board of India, 'Refund Status in the matter of Sahara' (SEBI, 2023) <https://www.sebi.gov.in/sahara.html> accessed 2 August 2025

³⁹ Securities and Exchange Board of India, 'Public Auction Notices – Sahara Properties' (SEBI, 2023) <https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=1&smid=0&cid=0> accessed 5 August 2025.

⁴⁰ **Roopalben Nareshbhai Panchal and Anr v Securities and Exchange Board of India** (Securities Appellate Tribunal, Appeal No 400 & 401 of 2015, 3 March 2016)

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In the matter involving fraudulent IPO allotments most notably in the Roopalben Panchal case the Supreme Court once again played a decisive role in securing justice for defrauded investors. Following the discovery of widespread irregularities where certain market operators had cornered shares meant for retail investors through multiple fictitious demat accounts, the Court directed the Securities and Exchange Board of India (SEBI) to take remedial action. Acting on the Court's mandate, SEBI constituted a committee under the chairmanship of Justice D.P. Wadhwa to identify affected investors and implement a restitution framework. This case reaffirmed that, despite the existence of mechanisms like the Investor Protection Fund (IPF), large-scale investor refunds often become feasible only through judicial intervention⁴¹. The need for court-directed oversight highlights the systemic limitations in India's existing regulatory compensation architecture, particularly in cases of complex, coordinated frauds.

VII. GAPS IN THE INDIAN FRAMEWORK

Although the **Investor Protection Fund (IPF)** has been institutionalized to instil confidence in retail investors and safeguard their interests against broker defaults, several **systemic shortcomings** persist. These flaws dilute the practical utility of the fund and create significant gaps in investor restitution mechanisms, especially in the wake of modern-day securities frauds.

⁴¹ Securities and Exchange Board of India, 'Final Report of the Justice Wadhwa Committee' (SEBI, 2008) https://www.sebi.gov.in/sebi_data/attachdocs/1293771687048.pdf accessed 5 August 2025.

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A. Lack of Automatic Triggers for Relief

The structure of the IPF is inherently **reactive** rather than proactive. Compensation from the fund is **only triggered when a stock exchange formally declares a trading member as “defaulting”**⁴². There is no automatic trigger or interim mechanism to address losses suffered due to operational malpractices, systemic failure, or fraud where the defaulting party has not yet been officially classified as such.

This issue was notably highlighted in the **Karvy Stock Broking case**, where despite evidence of fund misappropriation by the broker, exchanges delayed declaring Karvy a defaulting member.⁴³ The consequence was that investors were unable to claim from the IPF for months, even though their securities had already been compromised. The reliance on a **bureaucratic declaration**⁴³ before granting relief defers justice and often places the burden on the investor to initiate the claim process rather than the exchange acting ex officio.

B. Judicial Over-reliance for Investor Redressal

Another limitation of the current framework is its **dependence on judicial intervention** to secure relief for investors. Despite the IPF being statutorily established and funded through various mandatory contributions, **meaningful restitution to aggrieved investors often only occurs when courts step in.**

⁴² **Investor Eligibility under NSE IPF Trust (Defaulters Section FAQs)** (NSE India, n.d) <https://nsearchives.nseindia.com/web/sites/default/files/inline-files/Defaulters%20Section%20FAQs.pdf> accessed 4 August 2025.

⁴³ NSE declares Karvy Stock Broking as defaulter, expels from membership (Business Standard, 24 November 2020) https://www.business-standard.com/article/markets/nse-declares-karvy-stock-broking-as-defaulter-expels-from-membership-120112400385_1.html accessed 4 August 2025

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For instance, the **Sahara Refund Case**⁴⁴, which was ultimately monitored and enforced by the Supreme Court of India, exposed the limitations of administrative mechanisms in ensuring timely investor redressal. Similarly, in the **IPO scam involving Roopalben Panchal**⁴⁵, it was the Securities Appellate Tribunal (SAT) and the Supreme Court that played decisive roles in ensuring investors were compensated, rather than SEBI or the exchanges acting pre-emptively.

The IPF, in theory, should provide **speedy and equitable relief**, but the judicial backlog and procedural complexity delay this purpose.

C. Limited Scope of IPF Coverage

The applicability of the IPF is **restricted to clients of “defaulting trading members” registered on Indian stock exchanges**⁴⁶. This restriction inherently excludes:

- Clients of non-defaulting but fraudulent brokers.
- Clients impacted by **non-domestic entities** operating through Indian markets (as seen in the Jane Street controversy).
- Investors trading in **off-exchange platforms**, decentralized markets, or emerging segments like **crypto assets**, which are still in regulatory grey zones.

⁴⁴ **Securities and Exchange Board of India v Sahara India Real Estate Corporation Ltd** (2012) 10 SCC 603 (SC)

⁴⁵ **Roopalben Nareshbhai Panchal and Anr v Securities and Exchange Board of India** (Securities Appellate Tribunal, Appeal No 400 & 401 of 2015, 3 March 2016)

⁴⁶ Securities and Exchange Board of India, **Investor Protection Fund** (SEBI, 2014) https://www.sebi.gov.in/sebi_data/docfiles/20615_t.html accessed 4 August 2025.

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This narrow definition fails to capture the **expanding universe of modern trading activity** and increasingly **cross-jurisdictional risk**, where losses may stem from indirect or systemic failures rather than direct contractual relationships.

D. Low Investor Awareness

One of the most persistent barriers to the effective functioning of the IPF is the **lack of public awareness**. According to a **study by the National Institute of Securities Markets (NISM)**, over **60% of retail investors surveyed were unaware of the existence of the IPF**, let alone the procedures to make claims under it⁴⁷.

A significant barrier to the effective functioning of the Investor Protection Fund (IPF) is the low level of awareness among small and novice investors. These investors often lack essential knowledge about claim eligibility, documentation requirements, and submission timelines, which severely limits their ability to access compensation – even in cases where they are rightfully entitled to it. Stock exchanges and regulatory authorities have attempted to address this through investor awareness programs. However, these initiatives are frequently inconsistent and often fail to directly communicate the procedures for filing claims under the IPF. For example, while the National Stock Exchange (NSE) conducts financial literacy sessions across the country, many of these programs focus on basic investment knowledge rather than the specificities of investor compensation mechanisms like the IPF.⁴⁸ Moreover, language

⁴⁷ Sanjeev Bajaj, 'Awareness towards IEPF and reclaim process is very-very low: Sanjeev Bajaj, NISM' **The Economic Times** (Mumbai, 5 April 2023) <https://economictimes.indiatimes.com/markets/expert-view/awareness-towards-iepf-and-reclaim-process-is-very-very-low-sanjeev-bajaj-nism/articleshow/98474920.cms> accessed 5 August 2025.

⁴⁸ **Investor Awareness Programs** (NSE India, 30 July 2025) <https://www.nseindia.com/invest/investors-awareness-programs> accessed 5 August 2025.

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and regional disparities further hinder accessibility. Despite the Securities and Exchange Board of India (SEBI)'s emphasis on multilingual outreach, IPF-related content is not uniformly translated into regional languages, which alienates investors in Tier II and Tier III cities who may not be proficient in English or Hindi.⁴⁹ The National Commodity & Derivatives Exchange (NCDEX) has issued guidelines allowing the use of the IPF corpus for investor education through seminars and digital media, but there is no assurance of systematic or widespread implementation.⁵⁰ The absence of a centralized and multimodal awareness strategy – such as integration with school curricula, collaboration with rural banks, or use of mobile platforms – limits the fund's potential to act as an accessible safety net. Without such proactive and inclusive dissemination of information, the IPF remains an underutilized statutory mechanism, reducing its practical impact on protecting retail investors in India's increasingly complex financial markets.

VIII. CONCLUSION

While the Investor Protection Fund (IPF) under the Securities and Exchange Board of India (SEBI) represents a structurally sound and legally mandated safeguard, its current design is ill-equipped to meet the demands of a rapidly evolving financial ecosystem. Procedural delays – particularly the requirement of formal declaration of

⁴⁹ PTI, 'SEBI to tap social media for investor education campaigns' *The Economic Times* (Delhi, 10 May 2015) <https://m.economictimes.com/sebi-to-tap-social-media-for-investor-awareness-campaigns/articleshow/47222822.cms> accessed 5 August 2025.

⁵⁰ **Comprehensive Guidelines for Investor Protection Fund (IPF) and Investor Services Fund (ISF) for Stock Exchanges having Commodity Derivatives Segment** (NCDEX Circular, 30 May 2024) para 10.1 https://www.ncdex.com/public/uploads/circulars/Comprehensive%20guidelines%20for%20IPF%20and%20ISF%20for%20Stock%20Exchanges%20having%20commodity%20derivatives%20segment_1717156072.pdf accessed 5 August 2025.

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a broker as a “defaulter” by the stock exchange⁵¹ – hamper timely compensation and undermine the responsiveness of the system. Moreover, the IPF’s narrow scope excludes a wide range of investor grievances arising from complex and cross-border frauds, including those involving algorithmic or non-domestic trading entities⁵².

Equally concerning is the significant lack of investor awareness regarding the existence and functioning of the IPF⁵³, which diminishes its accessibility and practical relevance, especially for small and first-time investors who form a growing segment of India’s post-pandemic retail investor base.

To prevent the IPF from becoming a paper safeguard rather than an effective one, a comprehensive reform agenda is necessary. This includes the automation of compensatory triggers, the broadening of the IPF’s coverage to include diverse classes of wrongful acts and actors, and the institutionalisation of targeted awareness campaigns. Without such reforms, the IPF risks eroding investor trust and failing in its fundamental mandate of providing timely and equitable restitution.

⁵¹ Securities and Exchange Board of India, ‘**Comprehensive Guidelines for Investor Protection Fund (IPF) and Investor Services Fund (ISF) for Stock Exchanges Having Commodity Derivatives Segment**’ (SEBI Circular No SEBI/HO/MRD-PoD-1/P/CIR/2024/71, 30 May 2024) cl 3 https://www.sebi.gov.in/legal/circulars/may-2024/comprehensive-guidelines-for-investor-protection-fund-ipf-and-investor-services-fund-isf-for-stock-exchanges-having-commodity-derivatives-segment_83718.html accessed 5 August 2025

⁵² NSE declares Karvy Stock Broking as defaulter, expels from membership (**Business Standard**, 24 November 2020) https://www.business-standard.com/article/markets/nse-declares-karvy-stock-broking-as-defaulter-expels-from-membership-120112400385_1.html accessed 5 August 2025.

⁵³ Sanjeev Bajaj, ‘Awareness towards IEPF and reclaim process is very-very low: Sanjeev Bajaj, NISM’ (**The Economic Times**, Mumbai, 5 April 2023) <https://economictimes.indiatimes.com/markets/expert-view/awareness-towards-iepf-and-reclaim-process-is-very-very-low-sanjeev-bajaj-nism/articleshow/98474920.cms> accessed 5 August 2025.