Indian Economy · GS - III

Examine the implications of front-running for investor confidence and market integrity. Discuss the role of SEBI in preventing market misconduct and strengthening regulatory compliance.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 04/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Market manipulation; information asymmetry; investor protection; SEBI's regulatory role; trading-system oversight; broker accountability; transparency and enforcement

Model Answer

Introduction

Front-running is a form of unfair trading in which prior knowledge of an anticipated transaction is used to obtain an advantage. It can undermine investor confidence and weaken trust in the fairness of securities markets.

Implications for Market Integrity

Front-running creates an uneven playing field between informed participants and ordinary investors. It can distort trading decisions, compromise transaction confidentiality and undermine confidence in market intermediaries. Unauthorised access to trading terminals, as reported in the Axis Mutual Fund case, also raises concerns about access controls and broker compliance.

Role of SEBI

SEBI establishes and enforces securities-market regulations, investigates suspected misconduct and imposes penalties where violations are established. Effective oversight requires monitoring suspicious trading patterns, examining access records and ensuring that brokers maintain appropriate internal controls. Accountability of intermediaries is essential to prevent misuse of confidential information.

Way Forward

Brokers should strengthen user authentication, access restrictions, audit trails and employee supervision. Regulators should improve risk-based surveillance, timely investigations and coordination with relevant entities. Investor awareness and transparent enforcement can further reinforce confidence.

Conclusion

Preventing front-running requires effective surveillance, robust trading-system controls and proportionate enforcement. These measures help protect investors and preserve the credibility of India’s securities market.

BECOME IAS
AI POWERED UPSC PREP