

SEBI Panel Recommends New Conflict-of-Interest Rules for Transparency

November 14, 2025 • vajiramandravi.com



Conflict of Interest Latest News

- SEBI's High-Level Committee has recommended major reforms to strengthen its conflict-of-interest and disclosure framework.
- Key proposals include a **multi-tier disclosure system** requiring senior officials—from the chairman to chief general managers—to publicly declare their assets and liabilities.
- The committee also suggested investment restrictions, structured recusal norms, and a stronger whistleblower mechanism to protect investors and ensure fair market functioning.
- The reforms gain importance as the committee was formed after **allegations of conflict of interest against former SEBI chief Madhabi Puri Buch**.
- The expert panel reviewed existing rules and proposed measures to enhance transparency, accountability, and ethical governance within SEBI.

Background: The Formation of SEBI Committee

- SEBI set up the High-Level Committee (HLC) in March after allegations by Hindenburg Research against former SEBI chief Madhabi Puri Buch.
- The short seller claimed that Buch and her husband had undisclosed stakes in offshore funds linked to the Adani Group and involved in an alleged money-siphoning scheme — allegations denied by both the Buchs and the Adani Group.
- The committee was tasked with reviewing SEBI's conflict-of-interest and disclosure framework, assessing its adequacy, and recommending reforms to strengthen transparency, accountability, and ethical standards.
- The committee was chaired by Pratyush Sinha, former Chief Vigilance Commissioner and retired IAS officer. Its members included several eminent former regulators and industry leaders.

Mandatory Public Disclosure for SEBI's Senior Officials

- The committee proposed that SEBI's chairman, whole-time members, and chief general managers and above must publicly disclose their assets and liabilities due to their high decision-making powers.
- It also recommended that applicants for these senior roles reveal any actual, potential, or perceived financial and non-financial conflict-of-interest risks to the appointing authority.

Uniform Investment and Trading Restrictions for Senior Officials

- The committee recommended applying the **same investment and trading restrictions** to the SEBI chairman and whole-time members as those applicable to employees under existing rules.
- It proposed including them within the **definition of "insider"** under insider trading regulations.
- Senior officials may invest only in professionally managed pooled schemes regulated by financial authorities, with restrictions applying prospectively.
- Part-time members are exempt from these limits but must still disclose interests and avoid trading on unpublished price-sensitive information.
- The rules will also extend to spouses and financially dependent relatives.
- Upon taking office, the chairman and whole-time members must choose to liquidate, freeze, or sell their existing holdings — either through a trading plan or with prior approval.

Broader "Family" Definition to Strengthen Conflict-of-Interest Checks

- The committee proposed expanding SEBI's **definition of "family"** for board members to align with employee rules and global best practices.
- Instead of limiting it to a spouse and minor dependent children, the revised definition includes anyone related by blood or marriage who is substantially dependent, as well as individuals for whom the member or employee is a legal guardian.
- This broader scope enhances transparency and ensures consistent conflict-of-interest safeguards for all board members and employees, including contractual and deputed staff.

Other Key Proposals

- The committee recommended a formal and transparent recusal system to manage conflict-of-interest situations.
- It suggested **publishing an annual summary of recusals** made by the chairman, whole-time members, part-time members, and senior SEBI officials (CGM level and above) in the SEBI Annual Report — a practice currently not followed.

Secure and Anonymous Whistleblower Mechanism

- The panel called for a **strong whistleblower framework** that ensures confidentiality, anonymity, and protection from retaliation.
- It should enable reporting of potential, actual, or perceived conflicts of interest by SEBI officials, board members, intermediaries, market institutions, participants, and the general public, safeguarding institutional integrity beyond just serving as a complaint channel.

Post-Retirement Cooling-Off Restrictions

- The committee recommended a two-year ban on former SEBI members, employees, consultants, and advisors from appearing before or against SEBI in recognition, adjudication, settlement, or approval matters.
- This is aimed at preventing undue influence and strengthening ethical governance.

Ban on Gifts and Benefits

- To avoid influence and conflicts of interest, the committee advised prohibiting the chairman and whole-time members from accepting any gifts, directly or indirectly, from people with whom they have official dealings — in line with existing SEBI employee regulations.

New Ethics and Compliance Architecture

- The committee proposed creating a dedicated Office of Ethics and Compliance (OEC) and an Oversight Committee on Ethics and Compliance (OCEC).
- These bodies would strengthen ethical governance standards and monitor compliance with SEBI's conflict-of-interest framework.

Technology-Driven Conflict Monitoring System

- A modern, secure system powered by artificial intelligence and data analytics was recommended to proactively detect, predict, and address conflict-of-interest risks.
- This technology-based infrastructure aims to enhance transparency and safeguard market integrity.

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