



## Supreme Court Verdict on Adani-Hindenburg Case

**For Prelims:** [Supreme Court of India](#), [Securities and Exchange Board of India](#), [Short-selling](#), Naked Short selling, [Tax havens](#), Justice Sapre Committee, Futures and Options.

**For Mains:** Regulation of Short-selling in India, Supreme Court's Recent Verdicts Related to Capital Market.

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### Why in News?

The [Supreme Court of India](#) recently concluded its judgment on a series of petitions pertaining to allegations made by the US-based firm, [Hindenburg Research](#), against the **Adani group**.

- The apex court **refused to transfer the investigation** from the [Securities and Exchange Board of India \(SEBI\)](#) to other bodies, affirming its confidence in SEBI's handling of the case.
- Also, SC instructed SEBI to utilize its investigative authority to **determine if the Hindenburg report's short-selling actions violated laws**, resulting in investor harm.

### What is the Supreme Court's Position Regarding the Adani-Hindenburg Dispute and SEBI's Inquiry?

- **Background:**
  - **Hindenburg's Allegations: In January 2023**, Hindenburg Research accused the Adani group of **stock manipulation, accounting fraud, and using improper tax havens** and shell companies to manage funds, significantly impacting the stock market.
- **Petitions and Arguments:**
  - **Petitions Filed:** Various petitions were filed seeking a **court-monitored investigation**, citing implications for national security and the economy.
    - They also alleged that SEBI, the **market regulator**, was not competent or independent enough to conduct a fair and impartial probe.
  - **Counter Arguments:** The Adani group refuted the allegations, attributing them to false information and vested interests.
    - **SEBI** defended its competence and independence in handling the investigation.
- **Recent Judgment:**
  - The Supreme Court ruled in **favor of the Adani group and SEBI**, rejecting the transfer of the probe to other investigative bodies.
    - The court held that the **power to transfer investigation must be exercised in exceptional circumstances** and not in the absence of cogent justifications.
  - The Court **deemed the Hindenburg report unreliable** and aimed at influencing the market through selective and distorted information.
    - While **upholding SEBI's integrity**, the Court directed an expedited completion of SEBI's investigation within three months.

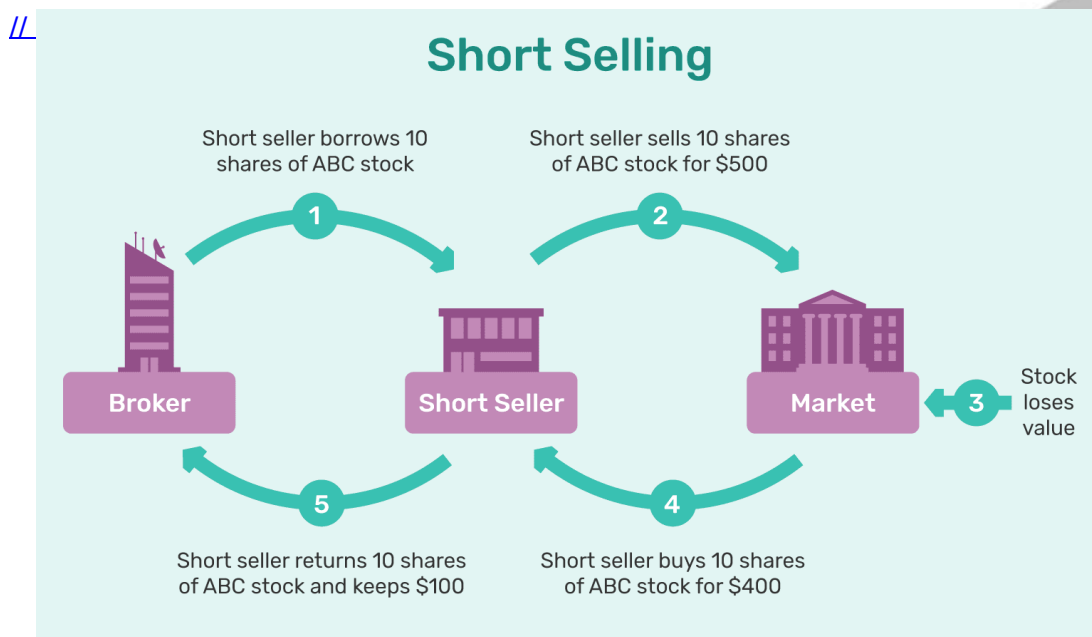
## Note

The Supreme Court formed the **Justice Sapre Committee** in March 2023 to probe **potential regulatory failures** after investors suffered significant losses due to market volatility following **Hindenburg Research's allegations against the Adani Group** for share price manipulation and accounting fraud.

## What is Short Selling?

### ▪ About:

- **Short selling** is the practice wherein **an investor borrows a stock or security, sells it in the open market, foreseeing a potential future price decline**, aiming to repurchase the same asset at a lower price point later on.
  - SEBI defines short selling as **selling a stock that the seller does not own at the time of trade.**



### ▪ Regulation of Short-selling in India:

- SEBI has recently stated that **investors across all categories will be allowed for short-selling, but naked short-selling will not be permitted.**
  - Consequently, all investors are required to **fulfill their duty of delivering securities** during the settlement period
  - **Naked short selling** occurs when an investor sells stocks or securities without first arranging to borrow them or ensuring they can be borrowed.
- Institutional investors must disclose upfront whether a **transaction is a short sale**, while **retail investors can make a similar disclosure by the trading day's end.**
- Also, short selling is permitted for securities traded in the **F&O (Futures & Options) segment**, subject to SEBI's periodic review of eligible stocks.
  - **Futures and Options (F&O)** are derivative instruments. Futures involve an **obligation to buy/sell assets at an agreed price** on a set date, carrying unlimited risk.
    - **Options grant the right (but not obligation)** to buy/sell assets by a certain date, **with a premium paid upfront** limiting potential losses.

## UPSC Civil Services Examination Previous Year Question (PYQ)

**Q. In the parlance of financial investments, the term 'bear' denotes (2010)**

- (a) An investor who feels that the price of a particular security is going to fall
- (b) An investor who expects the price of particular shares to rise
- (c) A shareholder or a bondholder who has an interest in a company, financial or otherwise
- (d) Any lender whether by making a loan or buying a bond

**Ans: (a)**

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