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SEBI CRACKS DOWN ON UNAUTHORISED GAMING AND TRADING PLATFORMS

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The Securities and Exchange Board of India (SEBI) has issued an advisory on 4 November 2024 (2024 Press Release), cautioning investors against undertaking trading activities through unauthorised platforms offering virtual trading services, paper trading or fantasy games based on real time stock price data of listed companies. The 2024 Press Release reiterates that investors using such unregistered intermediaries shall have no recourse with SEBI in case of any disputes, including through SEBI Complaint Redressal System (SCORES) or those operated by stock exchanges such as Securities Market Approach for Resolution Through ODR Portal (SMART ODR).

Background of fantasy stock platforms in India

Paper trading, also known as virtual trading or simulated trading, is a practice that simulates a real stock exchange and allows fictional trades tied to real-time stock prices of actual listed companies, without the use of real money. Stock price-based fantasy games allow players to create fictional portfolios and trade securities using 'live' stock market prices. Players can compete against each other on the basis of the performance of their virtual portfolios.

In recent years, there has been a significant increase in digital platforms that mimic real market trading such as Investro, TradingLeagues and Trinkerr. These platforms often allow users to engage in simulated trading, creating a quasi-investment experience.

SEBI's position on fantasy stock platforms

Given the risk to investors, SEBI has adopted a cautionary stance against such stock price fantasy games.

- On 30 August 2016, SEBI issued a press release (2016 Press Release), cautioning investors against participating in unapproved leagues, schemes or competitions related to the securities market, which may or may not involve distribution of prize monies.
- SEBI even considered banning such competitions or games. In a consultation paper dated 07 October 2016, SEBI had proposed amendments to the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, seeking to ban any scheme, competition, game or league on securities or related to securities market. SEBI cited several risks to investor interests due to lack of regulatory oversight, such as those posed by inadequate disclosure of conflict of interest by organisers of games, unsuitability of the offerings according to the experience and risk tolerance of the public, or failure to take responsibility by

organisers for any loss to the general public. SEBI also believed that investors could be lured by entities offering such games, believing that such entities possess expertise in securities market predictions.

- In May 2024, SEBI took cognisance of use of real time price data by gaming platforms. SEBI, through a circular, restricted market infrastructure institutions (such as stock exchanges) and market intermediaries from sharing real time price data with any third party, except where sharing of such information is required for 'orderly functioning of the securities market' or for fulfilling regulatory requirements. This action by SEBI, rendered any stock price fantasy games relying on real time stock price data unviable, as the core of the appeal of such fantasy games was the simulation of real market conditions.

While the 2024 Press Release may not mark a deviation from the regulatory stance adopted by SEBI for stock fantasy platforms, it has now emphasised that such activities are carried on in violation of Securities Contract (Regulation) Act, 1956 and SEBI Act, 1992. SEBI also seeks to remove any ambiguity by focusing on virtual/paper trading and fantasy games based on stock price data of listed companies, as opposed to leagues or competitions in the 2016 Press Release.

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