

# **INTERNATIONAL JOURNAL OF LEGAL AFFAIRS AND EXPLORATION**

---

**Volume 3 | Issue 1**

---

**2025**

**Website: [www.ijlae.com](http://www.ijlae.com)**

**Email: [editor@ijlae.com](mailto:editor@ijlae.com)**

## AN EASE OF DOING ONLINE TRADING

*Sushree Joyesha*

*Xavier Law School, XIM UNIVERSITY*

### **INTRODUCTION TO AN INCREASE IN ONLINE TRADING**

The rise of industrialisation and urbanization has resulted in the formation of big major corporation which includes manufacturing, transportation and finance. For these corporation to expand and grow smoothly fund raising through the issuance of securities in the market, which lead to an increase demand of investment in the trading activity on the stock exchange platform. The interconnection of global markets financially has an overall impact in the increased stock trading due to technical advancements, variation in investor behaviour, market dynamics and regulatory changes. Increased trading activity has helped in improved market liquidity and efficiency.

Mergers and acquisitions, initial public offers (IPOs), stock splits, and dividend announcements has resulted in increased trading activity as investors alter their portfolios. Technology advancement such as the spread of online trading platforms, algorithmic trading, and high-frequency trading, have made it easier and faster for investors to execute trade orders. Increased accessibility and efficiency can lead to increased trade volume. Speculations or momentum trading, in which investors purchase or sell the securities/stocks based on short term price movements rather than underlying, has resulted in greater trading volumes as investors seek profit from market trends and with so much progress in the securities market comes the establishment of The Securities and Exchange Board of India (SEBI) in 1988, who being the regulatory body played a significant role in the development of India's regulatory framework for the securities market and the trading platform. The regulations laid down by SEBI helped foster transparency, fairness and investors confidence in trading on stock market.

### **INITIATIVE TAKEN BY SEBI TO PROTECT INVESTORS INTEREST**

There are few mandates maintained by The Securities and Exchange Board of India, SEBI mainly protecting the interest of the investors, promote development of the securities market, regulate the market efficiency and transparency, improvement of market design and regulation along with availability of newer products involved in the securities market. Individuals, Domestic Institutional Investors such as mutual funds, insurance companies, Foreign Institutional Investors and Corporate Investors are the major investors investing and involved in the trading activities as a matter of fact it becomes SEBI's primary responsibility towards the protection of the investors from the fraudulent activities or malpractices committed by the

---

<sup>1</sup> Does privatization serve the public interest?, Harvard Business Review (2014), <https://hbr.org/1991/11/does-privatization-serve-the-public-interest> (last visited Jun 22, 2024).

market intermediaries, financial entities and stock exchanges to maintain a fair and transparent market. By the virtue of The Securities and Exchange Board of India Act, 1992 lays down provision u/s 11(1) it is the duty of the Board to protect the interest of the investors in securities and to promote the development of, and to regulate the securities market, by such measures as it thinks fit.

Two essential requirements for an investor to trade on stock exchange platform<sup>2</sup> is to have a “trading account” and “demat account”<sup>3</sup> as it facilitates transactions and manages the securities. Trading Account, allows the investors to buy as well as to sell the securities like bonds, stocks, options, commodities or any other holdings on the stock market, which an individual has to open with a stock broker who is registered with the stock exchange. The trading account allows to debit from their demat account and credit the proceeds to the bank account during the buying and selling of securities which helps the investor diversify their portfolios and investment opportunities whereas a Demat Account, allows to hold the securities in electronic format by disregarding the need to have physical certificates and provides the option for quick transfer of shares from the demat account. The securities which are held in the demat account also serves as collaterals for loans.

Recently The Securities Exchange Board of India passed a circular dated 12<sup>th</sup> January 2024 facilitating “Voluntary Freezing/Blocking of Trading Account by the Investors” keeping in the mind that there is provision for blocking/freezing of demat account for the protection of the Investors Interests.

### **THE SEBI CIRCULAR DATED 12<sup>TH</sup> JANUARY 2024, READS AS:**

*“Pursuant to consultation with the Brokers ‘Industry Standards Forum’ (ISF) and to enhance ease of doing business and ease of investment, it has been decided that **the framework for Trading Members to provide the facility of voluntary freezing/blocking the online access of the trading account to their clients on account of suspicious activities** shall be laid down on or before April 01, 2024, by the ISF, under the aegis of stock exchanges, in consultation with SEBI and the same shall, inter-alia, contain necessary guidelines with respect to the following:*

1. *Detailed policy for voluntary freezing/ blocking the online access of the trading account of the client including the following:*
  - *Modes through which a client can request/communicate to the Trading Member for voluntarily blocking the trading accounts.*
  - *Issuing of acknowledgement to the clients on receipt of message.*
  - *Time period within which the request shall be processed and the trading account shall be frozen/blocked.*
2. *Action to be taken by the Trading Member pursuant to the receipt of request for freezing/blocking of the trading account.*
3. *Process for re-enabling the client for trading/transfers.*

---

<sup>2</sup> Indian Securities Market, [https://www.bseindia.com/downloads1/PPT1\\_IntroductiontoSecuritiesMarkets.pdf](https://www.bseindia.com/downloads1/PPT1_IntroductiontoSecuritiesMarkets.pdf) (last visited Jun 22, 2024).

<sup>3</sup> What is trading account and Demat account?, National Institute of Securities Markets (NISM) (2023), <https://www.nism.ac.in/what-is-trading-account-and-demat-account> (last visited Jun 22, 2024).

4. *Intimation to be provided by the trading member to the clients with respect to introduction of the facility to block the trading accounts.*

*The Stock Exchanges shall ensure that the guidelines so issued under the aforesaid Framework are implemented by Trading Members with effect from July 01, 2024. Stock Exchanges shall also put in place an appropriate reporting requirement by Trading Members to enforce the above system. A compliance report to this effect shall be submitted to SEBI by Stock Exchanges latest by August 31, 2024.*

*Stock Exchanges are advised to take certain measures such as –*

- Take necessary steps and put in place necessary systems for implementation of above.*
- Make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above guidelines.*
- Bring the provisions of this circular to the notice of Trading Members and also to disseminate the same on their website.*

*This circular was issued in exercise of powers conferred by SEBI under Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with Regulation 30 of SEBI (Stock Brokers) Regulations, 1992, in order to protect the interests of investors in securities and to promote the development of, and to regulate the securities markets<sup>4</sup>.*

The Broker' Industry Standard Forum (ISF) was introduced to permit the brokers and the investors to agree on uniform criteria on areas like management of risk, how to handle clients and resolve the dispute arising so that detailed informed decisions for benefiting everyone could be made. This is how the Broker's Indian Standard Forum has been instrumental in managing issues like upstreaming of client's fund, the elimination of fake filings and in developing significant SEBI circular.

This embarks as a significant step towards increasing investors safety and developing a more structured securities industry. Earlier, there were limited regulation over online trading accounts. This new facility will allow investors to increase security against suspicious behaviour or unauthorised transactions. The traders can now easily freeze their accounts to protect their valuables and reputation permitting to have complete control over their online trading behaviour, including the ability to block access for a specific duration. This action by SEBI is likely to encourage ongoing involvement in the online trading market. Authenticating and confirmative transactions will also become easier and would lower disagreements and disputes between investors and traders.

This circular acts as a fundamental right empowering investors to raise their financial security concerns in response to any irregularities or suspected unauthorised transaction by deliberately freezing their trading accounts. The long-term effects of this provision may prove as a revolution, bolstering investors fortification and build a strong regulatory structure in the online trading industry.

---

<sup>4</sup> Ease of doing investments by investors- facility of voluntary freezing/ blocking of trading accounts by clients, SEBI, [https://www.sebi.gov.in/legal/circulars/jan-2024/ease-of-doing-investments-by-investors-facility-of-voluntary-freezing-blocking-of-trading-accounts-by-clients\\_80597.html](https://www.sebi.gov.in/legal/circulars/jan-2024/ease-of-doing-investments-by-investors-facility-of-voluntary-freezing-blocking-of-trading-accounts-by-clients_80597.html) (last visited Jun 22, 2024).

## **THE RATIONALE OVERDUE FOR VOLUNTARY FREEZING OF TRADING ACCOUNTS:**

In India the Stock broking industry took a transition from a call and trade type of mode to online mode, where the login ids and passwords for the trading account are issued to the investors by the Trading Members. Investors have reported questionable activity occasionally on the trading members, but majority of Trading Members do not offer the option of freezing/blocking accounts, leaving the trading accounts unprotected.

The distressing occurrence of unauthorized and unlawful activity apprehending suspicious activity as evidenced by “1,819 complaints made to SEBI in 2019-20 (representing 12.5% of all complaints) which has exposed investors to financial losses and reputational damage. According to SEBI’s annual report for 2021-22, complaints related to unauthorized activity in online trading surged by 20% compared to the previous year, reaching a total of 2,235 complaints<sup>5</sup>. This represents a 15% share of all complaints received by SEBI, highlighting the growing concern among investors. In 2022-2023, a concerning number of 1,481 complaints were registered with SEBI” pertaining to unauthorized trading activity. The continual risk of insider trading, phishing schemes and hacking of trading account emphasised on the need for investor centric provision and fast actions for eliminating them.

The implementation of this new provision is indispensable as it reduces the danger of unauthorised transactions. The circular dated 12<sup>th</sup> January 2024 is synchronised in tandem with the SEBI’s consultation paper dated 16<sup>th</sup> January 2023 which is projected the utilisation of blocked funds by investors to trade in the secondary market, therefore doing away with the need to pay money up front to a stockbroker. The ISF creates standardised communication template to notify investors about their freeze/block options or any related procedure.

## **HOW FREEZING/BLOCKING OF TRADING ACCOUNT IS CRUCIAL:**

To stop additional damage and lessen any losses, investor can use a new feature that allows you to freeze their accounts. Trading methods have undergone a radical change, mostly because to SEBI. Enhancing investor protection and security in the ever-changing financial landscape is made possible in large part by the recent circular published by SEBI regarding the voluntary freezing or barring of trading account. An important step towards improving investor protection and security in the ever-changing financial world is the recent circular from the SEBI, dated January 12, 2024, regarding the voluntary freezing or barring of trading accounts. This action highlights the vulnerabilities of trading accounts to criminal activity and emphasises the expanding issues in the industry, such as insider trading and cyber threats. In order to preserve investor confidence, it is essential to make sure that investors' money and assets are properly protected, reducing the possibility of abuse or stock broker default. In order to preserve investor

---

<sup>5</sup> Cbcl, Empowering investors: India’s Voluntary Trading Account Freeze Option Empowering Investors: India’s Voluntary Trading Account Freeze Option - (2024), <https://cbcl.nliu.ac.in/capital-markets-and-securities-law/empowering-investors-indias-voluntary-trading-account-freeze-option/#:~:text=This%20new%20facility%20empowers%20investors,safeguarding%20the%20assets%20and%20reputation> (last visited Jun 22, 2024).

confidence, it is essential to make sure that investors' money and assets are properly protected, reducing the possibility of abuse or stock broker default. Using technology to identify early warning signs of possible stockbroker misuse of funds and securities has been the goal of the evolving regulatory framework. But in order to close any possible gaps and lessen the possibility of stock brokers exploiting investors' money and securities, there is a great need for more creative approaches<sup>6</sup>.

---

<sup>6</sup> Navigating vulnerabilities: SEBI's circular on trading account security IndiaCorpLaw (2024), <https://indiacorplaw.in/2024/02/navigating-vulnerabilities-sebis-circular-on-trading-account-security.html> (last visited Jun 22, 2024).