ARTICLE

Reimagining SEBI's Consent Settlement Framework

This article traces the journey of SEBI's consent settlement framework from an administrative innovation in 2007 to a central pillar of securities enforcement. It situates the regime in the broader global and domestic context of negotiated enforcement, analyses how the current formula-driven approach to settlement terms operates in practice, and highlights structural concerns around proportionality, transparency, timelines, and the limited use of non-monetary remedies. Building on nearly two decades of data and experience, the article proposes a set of regulatory reforms to create a more evidence-based, principled, and forward-looking 'Settlement Regulations 2.0' that better aligns efficiency with deterrence and market integrity.

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INTRODUCTION

An enforcement authority generally has two broad pathways to address a regulatory contravention: the traditional adjudicatory proceeding, grounded in principles of natural justice, and a negotiated consent settlement, a more recent institutional innovation offering equally effective outcomes. Consent settlement conserves valuable resources, provides swift resolution, and enables innovative, forward-looking remedies that, in many cases, surpass the efficacy of formal adjudication. In essence, it achieves the public good, that is, an end of litigation, *Expedit reipublicae ut sit finis litium.*

Recognising these advantages, regulators worldwide have institutionalised settlement frameworks designed to deliver timely, equitable, and resource-efficient enforcement outcomes without compromising regulatory objectives. Increasingly, both regulators and regulated entities utilise settlements, with or without admissions of guilt, to strike a balance between deterrence and efficiency, while promoting real-time compliance enhancements.

In the United States, for instance, the Securities and Exchange Commission has, for decades, relied extensively on consent settlements to resolve most enforcement matters. These settlements typically record consent to orders, injunctions, disgorgement, monetary penalties, undertakings, and compliance obligations, while parties neither admit nor deny the allegations.

Globally, the rise of negotiated enforcement reflects a decisive shift from punitive formalism to responsive regulation. Far from weakening the rule of law, settlements bolster it by upholding accountability, transparency, and deterrence. For regulators, consent settlements present a form of regulatory diplomacy: enforcement that blends deterrence with dialogue, and punishment with problem-solving, enabling markets to self-correct quickly without compromising integrity.

India's trajectory mirrors this global evolution, though shaped by constitutional imperatives, institutional capacity, and market realities. Confronted with the twin challenge of mounting enforcement backlogs and limited institutional bandwidth, the market regulator, Securities and Exchange Board of India (SEBI), introduced consent settlements through a circular in 2007. What began as an administrative innovation has since evolved into an integral pillar of SEBI's enforcement architecture, reinforced by statutory enablement and supported by detailed subordinate legislation.

The consent framework has largely delivered value: expedited enforcement, reduced backlogs, enabled swift and meaningful remedies, and preserved deterrence without overwhelming adjudicatory forums. Nonetheless, challenges remain. Critics highlight issues such as limited transparency in settlement negotiations, a lack of proportionality in settlement terms for comparable violations, and unpredictable outcomes that risk

undermining public confidence in the system. The imperative is no longer to defend the settlement per se but to refine it. This article proposes enhancements to preserve consent settlements as a credible, effective, and constitutionally sound alternative to full adjudication.

EVOLUTION OF SETTLEMENT FRAMEWORK

India was not unfamiliar with negotiated enforcement. The Motor Vehicles Act, 1988, for example, empowers police to discharge a person who violates traffic rules upon payment of a prescribed fine. A 2006 amendment to the Code of Criminal Procedure, 1973 (later replaced by Chapter XXIII of the Bharatiya Nagarik Suraksha Sanhita, 2023), introduced plea bargaining for certain offences carrying a maximum imprisonment of up to seven years, establishing a consensual closure. Several regulatory statutes, including the Companies Act, 2013, and the Competition Act, 2002, also provide for compounding or settlement of offences. Reflecting the true spirit of settlement, on 19th November 2025, the Apex court permitted a full and final settlement upon payment of ₹5,100 crore and quashed all proceedings under the IPC, the Prevention of Corruption Act, 1988, the Prevention of Money Laundering Act, 2002, the Fugitive Economic Offenders Act, 2018, the Companies Act, 2013 and the Black Money and Income Tax laws, thereby putting the entire litigation to quietus.[1] This underscores that even the most serious legal contraventions may be resolved through settlement, provided the terms are commensurate.

SEBI, however, was among the first regulators to systematically operationalise negotiated enforcement. Its 2007 circular introduced guidelines for 'consent orders and compounding of offences,' even though the parent statute, the Securities and Exchange Board of India Act, 1992 (SEBI Act), contained no explicit provision for settlement at the time, beyond the clause excluding appeals to the tribunal from orders made with parties' consent. This circular created a structured framework involving application, negotiation, internal scrutiny, external advisory, and final order, enabling effective closure of civil and administrative proceedings. Early outcomes validated SEBI's approach, as it introduced finality, freed regulatory resources, and allowed SEBI to implement innovative non-monetary remedies such as debarments and behavioural undertakings.

The Securities Laws (Amendment) Act, 2014 granted statutory recognition to the settlement regime. This amendment empowered SEBI to settle administrative and civil proceedings under the securities laws (the SEBI Act, 1992, the Securities Contracts (Regulation) Act, 1957, and the Depositories Act, 1996) upon payment of such sums or other terms as may be determined according to regulations, with no appeal permitted against settlement orders. In pursuance of the amendment, SEBI framed the SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014, replaced later by the SEBI (Settlement Proceedings) Regulations, 2018.

Apart from the settlement of civil or administrative proceedings, the securities laws also permit compounding of certain offences that are not punishable solely by imprisonment or imprisonment with fine. Such offences may be compounded by the Securities Appellate Tribunal or an appropriate court. SEBI has issued guidelines for processing compounding applications and determining compounding terms, which largely mirror the Settlement Regulations.

It should not be mistaken that a consent order resolving regulatory proceedings closes criminal proceedings initiated by agencies such as the CBI in matters involving market manipulation, IPO irregularities, or systemic financial wrongdoing that form part of the same fact pattern. On 14th November 2025, the Bombay High Court held that SEBI's jurisdiction is confined to civil-regulatory remedies. Consequently, a consent order, though final and binding for SEBI proceedings, cannot serve as a shield against criminal investigation or prosecution by other agencies arising from the same contravention.[2]

That said, a SEBI settlement may not be wholly irrelevant for criminal proceedings initiated by SEBI itself. The Supreme Court's majority held that while adjudication and prosecution are independent, a merits-based exoneration by the regulator renders continuation of prosecution on identical facts an abuse of process.[3] In cases of market manipulation or systemic misconduct, SEBI's orders are often foundational to downstream criminal action, and courts may not ignore this substantive interlinkage.

SETTLEMENTS UNDER THE FRAMEWORK

Table 1 reveals distinct phases in the evolution of SEBI's consent settlement mechanism and illustrates how its use, scope, and impact have evolved alongside SEBI's broader enforcement philosophy. The early years (2007-11) witnessed the rapid adoption of the framework, reflecting the market's enthusiasm for a pragmatic and speedy alternative to litigation. In this period, SEBI settled nearly 1,000 applications and realised about ₹190 crore in settlement and disgorgement amounts, almost eight times the monetary penalties recovered through adjudication in the preceding decade. This phase was marked by both regulatory experimentation and industry adaptation, with consent emerging as an efficient substitute for prolonged adjudication.

Following sustained criticism that the mechanism was overly permissive and lacked transparency, SEBI issued a revised circular in 2012 introducing tighter eligibility norms. Serious violations, such as insider trading and fraudulent practices, were excluded from settlement, leading to a sharp contraction in both applications and settlements. This phase represented regulatory recalibration aimed at reinforcing the credibility and deterrent value of enforcement.

The period from 2016-20 marked a revival with the statutory backing, followed by the 2014 Settlement Regulations and their further refinement in 2018. The structured formula for computing settlement terms brought greater predictability

1. *Hemant S. Hathi v. Central Bureau of Investigation & Ors. (W.P. (Crl.) No. 37/2020).*

2. *Manoj Gokulchand Seksaria v. State of Maharashtra & CBI*

3. *Radheshyam Kejariwal v. State of West Bengal (2011) 3 SCC 581*

and transparency, encouraging wider reliance on settlement as a compliance strategy. Applications and settlements rose noticeably, culminating in the settlement of 200 cases in 2017-18, a clear indication of renewed confidence in the mechanism.

Since 2020-21, the consent settlement framework appears to have entered a phase of consolidation and maturity. Applications have risen steadily, reaching 703 in 2024-25, while settlements climbed to 284. Market participants increasingly view settlement as a legitimate and efficient compliance tool, not as an escape from accountability. The mechanism has thus evolved from an experimental alternative to adjudication into a core pillar of SEBI's enforcement architecture.

Table 1: Receipt and Disposal of Applications under Consent Settlement

Year	No. of Applications			% of Applications Settled	Monetary Terms (₹ crore)
	Received	Settled	Rejected		
2007-08	604	51	21	70.8	2.49
2008-09	666	428	236	64.5	45.46
2009-10	680	359	333	51.9	68.56
2010-11	359	185	179	50.8	72.67
2011-12	262	104	71	59.4	16.5
2012-13	185	64	189	25.3	14.7
2013-14	99	45	58	43.7	4.21
2014-15	108	41	59	41.0	3.58
2015-16	177	34	82	29.3	4.42
2016-17	171	103	23	81.7	13.51
2017-18	241	200	79	71.7	30.87
2018-19	419	137	164	45.5	46.11
2019-20	249	100	143	41.2	51.81
2020-21	239	158	187	45.8	69.83
2021-22	345	107	167	39.1	170.77
2022-23	386	185	285	39.4	250.81
2023-24	434	114	169	40.3	110.88
2024-25	703	284	272	51.1	874.79
Total	6327	2699	2717	49.8	1851.97

Source: Constructed from SEBI Annual Reports

Note 1: Monetary terms include settlement charges, disgorgement, and legal charges, and do not include non-monetary terms of settlement. This also does not include compounding charges.

Note 2: The number of applications excludes those received under settlement schemes; however, the monetary terms include amounts arising from settlements under such schemes.

Note 3: Applications settled or rejected in a year may have been received in earlier years. Applications that were withdrawn are not reflected in the table.

Consent settlement is concluded on agreed settlement terms, which typically comprise both monetary and non-monetary consequences. However, the data in the table captures only the monetary component of settlement terms and does not present non-monetary terms, which are equally significant. The non-monetary terms may range from debarment from the securities market and association with any listed entity or registered intermediary, for a certain period,[4] disgorgement arising from the applicant's action or inaction, cancellation of fraudulently issued securities, lock-in of securities, implementation of enhanced policies and procedures to prevent future securities laws violations, appointment of an independent consultant to review its policies and procedures, and provide enhanced training and education to its employees[5] to pro-bono community services.[6] It, therefore, presents only a partial picture of SEBI's overall settlement activity. Further, the above analysis covers only consent settlements and does not include settlements by compounding.

SETTLEMENT PROCESS

The SEBI (Settlement Proceedings) Regulations, 2018 establish a structured process for settling specified proceedings contemplated, initiated, or pending before SEBI, SAT, or the Supreme Court for violations of securities laws. The process begins with an application by the party involved, which is filed within prescribed timelines, accompanied by necessary documents, undertakings, and an application fee. An applicant may either admit guilt or neither admit nor deny the guilt; the latter typically attracts stricter settlement terms.

Settlement is not considered where the alleged contravention has a market-wide impact, caused losses to a large number of investors, or impacted market integrity. In all other cases, the application is first examined by an Internal Committee (IC) comprising SEBI division heads, which may seek additional information, hold meetings with applicants, evaluate factual submissions, and discuss indicative settlement terms. These meetings are often interactive, with applicants advancing mitigating factors, demonstrating compliance reforms, or outlining systemic improvements. This ends up with the IC suggesting indicative settlement terms to the applicant.

The proposed terms, along with the applicant's response and the IC's recommendations, are then placed before a High-Powered Advisory Committee (HPAC), an external body chaired by a retired High Court Chief Justice. The HPAC functions as an external fairness and proportionality check and makes recommendations to the Panel of Whole-Time Members (PWTMs) of SEBI. The PWTMs takes the final decision to accept or reject the settlement. A settlement accounts for the public interest, not just the commercial

4. *Settlement Order dated December 19, 2024 in front running of the orders of Big Client, Bharat Kanaiyalal Sheth Family Trust, and Ors.*
5. *Settlement Order dated September 28, 2018 in SBI Mutual Fund trading in Padmini Technologies Limited.*
6. *Settlement Order dated October 04, 2024 in Trading Access Point (TAP) Architecture and Network Connectivity of the NSE.*

interests of the applicants seeking settlement.[7] A person who is alleged to have contravened the law has no vested right either to insist upon SEBI settling a dispute or to enforce compliance with the terms of a proposed offer of settlement.[8]

Upon approval by the PWTMs, SEBI issues a demand notice for payment of the settlement amount and undertakings to comply with other terms. Failure to comply procedurally, including delays or non-payment, may lead to rejection or withdrawal of the settlement. Once terms are fulfilled, the concerned adjudicating authority issues a settlement order, which is binding, final, and published on SEBI's website. Where proceedings are pending before the SAT or the Supreme Court, the agreed terms are placed before the respective forum for approval. A similar approach applies to compounding, with agreed terms placed before the criminal court where prosecution is pending.

The Regulations also enable summary settlements (pre-proceeding notice), confidential settlements (where substantial cooperation is provided), and scheme-based settlements applying standardised terms to a class of similar cases. The framework seeks to promote transparency, proportionality, deterrence, and timely closure of enforcement actions while safeguarding investor and market interests.

> When the settlement proceedings contemplate only monetary consequences for a contravention, settlement should ordinarily be confined to monetary terms without superimposing non-monetary conditions, while for proceedings that envisage non-monetary consequences, the settlement should incorporate appropriate non-monetary commitments, supplemented by monetary terms where warranted.

SETTLEMENT TERMS

SEBI settles a contravention only where settlement terms (ST) are commensurate with the nature and gravity of the violation. The Regulations[9] prescribe a formula that helps the Applicant, IC, HPAC, and PWTM to determine the ST. While the formula serves as a baseline, all authorities have discretion to deviate based on specific case circumstances.

ST comprises:

(a) **Monetary terms,** known *Settlement Amount (SA), and/or*

(b) **Non-monetary terms** (NMT), which include measures such as market-access restrictions, suspension of registration, disgorgement, governance or compliance undertakings, behavioural directives, and supervisory improvements.

SA is derived from the Indicative Amount (IA) calculated as per the formula and then adjusted for up to twelve factors, such as conduct during proceedings, gravity and impact of the default, history of prior violations, deterrence requirements, and investor harm. Regulations require IA to be computed *per count of default.* Where the formula for calculating IA is inapplicable or cannot be adopted due to the peculiar nature of default, the authorities may arrive at an SA as they deem fit.

IA = A × B + Legal Costs. *Legal Costs* are an estimated legal cost incurred when an application is made at a later stage of the proceeding. A is a multiplying factor capturing two elements:

(a) **Stage of settlement:** applications at the early stage of the proceedings attract lower values (e.g., 0.40 if filed *suo motu* before SEBI detects the violation; 0.65 after issuance of a show-cause notice), encouraging early resolution and conserving regulatory resources; and

(b) **Antecedents of the applicant:** where the applicant has a history of prior enforcement actions, the value of this factor increases proportionately with the number of such actions.

B represents the *benchmark amount* attributable to each count of the alleged default. It is computed as a product of **BV** and **BA**.

- **BV** is an aggregate of base values assigned to multiple factors, including twelve aggravating factors, nine mitigating factors, four factors assessing whether the default was deliberate, and three factors assessing whether it was reckless.

- **BA** is the *base amount* attributable to each count of default, determined in accordance with the guidelines.

Because **IA = A * B, and B = BV × BA**, the BA acts as the foundational multiplier for all other elements. Consequently, BA becomes the most critical determinant of the IA, and by extension, the SA and overall ST. Under the Regulations, BA is the higher of:

(X) Illegal profits made + loss caused to investors, or

(Y) The amount as per the Tables in the Regulations.

Component **X** reflects the gravity and impact of the default. Therefore, the "*whichever is higher*" rule generally results in BA equalling **X**, with **Y** operating as a regulatory floor. Where **X** is unavailable, the formula cannot be meaningfully applied, and reliance solely on **Y** can distort proportionality.

Table VI specifies BA for defaults in relation to open offers, and Tables VII to IX specify BA for defaults in disclosures. Table X is a residuary table covering all other contraventions under the securities laws. It has four rows. Row 1 specifies BA for defaults relating to fraudulent and unfair trade practices, insider trading, and disclosures in

7. *Para 48, Abans Enterprises Ltd. & Anr. Vs. SEBI WP 4457/204*
8. *Para 7, Shilpa Stockbroker Pvt. Ltd. and Anr. Vs. SEBI 2012 SCC OnLine Bom 58*
9. *Securities and Exchange Board of India (Settlement Proceedings) Regulations 2018 [Last amended on November 28, 2024]*

offer documents; row 2 specifies BA for the same default as row 1 but having a significant impact; row 3 specifies BA for delay in redressing investor grievances, and row 4 is a catch-all residuary for contraventions not expressly covered elsewhere.

TABLE X: RESIDUARY BASE AMOUNT, FOR EACH UNIT OF ALLEGED DEFAULT FOR EACH APPLICANT OR ON JOINT LIABILITY BASIS (AS PER THE SUM OF APPLICABLE AMOUNTS IN CASE OF JOINT APPLICANTS)

BASE AMOUNT WHERE:	NAME LENDERS # (I)	BODY CORPORATES & INDIVIDUALS (WHEN NOT IN I, III-V) (II)	INTERMEDIARY INCLUDING PRINCIPAL OFFICERS (III)	MARKET INFRASTRUCTURE INSTITUTIONS INCLUDING PRINCIPAL OFFICERS (IV)	FUND-RELATED DEFAULTS INCLUDING PRINCIPAL OFFICERS (V)
DEFAULTS RELATE TO FUTP OR IT, FALSE/ MISLEADING/ INCORRECT/ INCOMPLETE DISCLOSURES IN OFFER DOCUMENTS, OR FAILURE BY MARKET INFRASTRUCTURE INSTITUTIONS TO CONDUCT BUSINESS IN THE REQUIRED MANNER, (M)	RUPEES 10 LAKHS	RUPEES 40 LAKHS	RUPEES 20 LAKHS	RUPEES 2 CRORE	RUPEES 40 LAKHS
VIOLATION INVOLVED AT (M) IS APPLICABLE AND - SUCH VIOLATION DIRECTLY OR INDIRECTLY (I) RESULTED IN SUBSTANTIAL LOSSES TO OTHER PERSONS, OR (II) CREATED SUBSTANTIAL LOSSES OR A SIGNIFICANT RISK OF LOSSES TO OTHER PERSONS, OR (III) AFFECTED THE INTEGRITY OF THE SECURITIES MARKETS (N)##	RUPEES 20 LAKHS	RUPEES 1 CRORE	RUPEES 30 LAKHS	RUPEES 4 CRORES	RUPEES 75 LAKHS
DELAY IN REDRESSING INVESTOR GRIEVANCES (O)	-	RUPEES 3 LAKHS	RUPEES 5 LAKHS	RUPEES 7 LAKHS	RUPEES 10 LAKHS
RESIDUARY (P)	RUPEES 3 LAKHS	RUPEES 10 LAKHS	RUPEES 10 LAKHS	RUPEES 1 CRORE	RUPEES 15 LAKHS

ANALYTICAL INSIGHTS

In 2024-25, SEBI received a record 703 consent applications, marginally higher than the 600-plus applications filed annually during 2007-10. This modest increase is striking when viewed against the manifold expansion of the securities market: a sharp rise in the number of investors and intermediaries, exponential growth in transaction volumes and values, the addition of new markets (commodities) to SEBI's remit, and the consequent surge in enforcement actions.

During the year, SEBI disposed of 556 applications, accepting 284 and rejecting 272, a near-even split with an acceptance rate of 51% and a rejection rate of 49%. Cumulatively, since inception, SEBI has accepted 2,699 applications and rejected 2,712, reflecting almost a perfect balance of 50%. At first glance, this 50:50 symmetry suggests that negotiations between SEBI and applicants are finely balanced. Neither side enjoys overwhelming bargaining power: excessive regulatory rigidity risks driving parties to litigation, while undue applicant resistance invites outright rejection.

A closer examination, however, reveals a more unsettled picture. Year-to-year acceptance rates have swung from as low as 25% in 2012-13 to as high as 82% in 2016-17, without a clear trend. Such volatility undermines predictability, a critical attribute of any credible enforcement tool, and likely explains why consent applications have failed to keep pace with the market's rapid growth. Since applicants are numerous, heterogeneous, and act independently, predictability is unlikely to hinge on applicant behaviour. It depends instead on the regulatory framework and, more importantly, on how it is applied from year to year. Two factors, in particular, shape this predictability: proportionality and transparency.[10]

1. **Proportionality:** Proportionality requires that settlement terms reflect the nature and gravity of the contravention, considering intent, scale of impact, and the benefits derived. A proportionate approach ensures relatively minor contraventions are resolved on lighter terms, while serious breaches invite onerous settlements. This not only aligns settlement outcomes with culpability but also promotes fairness, consistency, and deterrence. Where proportionality is applied unevenly, say, if minor infractions are rejected outright while significant ones are settled on lenient terms, fairness is compromised, and acceptance rates swing sharply.

   The mechanism derives settlement terms from a formula anchored in a base amount (BA), defined as the higher of (i) illegal profits made plus loss caused to investors, or (ii) a value specified in regulatory tables. While conceptually sound, this formula falters in practice. Data on illegal gains and investor losses are seldom available, largely because such quantification is inherently difficult. This compels near-exclusive reliance on tabular values, which are blunt instruments: they prescribe fixed amounts for contraventions irrespective of their scale, duration, or market impact. The problem is compounded by the structure of the tables themselves. Most contraventions are funnelled into a 'residuary' table (Table X), which lists a handful of specific violations and consigns the rest to a broad catch-all category 'residuary' row in the table. As a result, this residuary row becomes the default basis determining BA in the overwhelming majority of cases, bearing little or no relationship to the gravity, scale, or impact of the underlying misconduct.

   This design produces stark anomalies. A contravention yielding an unlawful gain of ₹1 crore attracts the same BA as one yielding ₹1. A failure to disclose a change in shareholding draws the same BA whether the company has one lakh shareholders or one hundred. Diversion of funds of ₹1 crore is treated on par with diversion of ₹1; market manipulation lasting a week is equated with manipulation spanning three years; and a KYC deficiency in a single account invites the same outcome as deficiencies across a million accounts.

   Such disconnect skews incentives and outcomes. Serious violations may find settlement economically attractive, while relatively minor contraventions are pushed into adjudication on merits. Conversely, settlement applications may be rejected because applicants do not agree to formula-driven terms, only for the matter to culminate in adjudication with far lighter consequences. These distortions undermine proportionality, weaken deterrence, and risk eroding confidence in the settlement framework

2. **Transparency:** Equally important is transparency. When settlement norms, evaluation criteria, and guiding principles are clearly articulated, publicly explained, and consistently applied, applicants and market participants can anticipate outcomes with greater confidence. Conversely, where the basis for decisions is not sufficiently visible or well-understood, participants may perceive outcomes as unpredictable, even if each decision is individually reasoned.

   Insufficient transparency adds to ambiguity. The Regulations empower SEBI to refuse settlement where defaults affect 'market integrity' or have a 'market-wide impact', yet neither expression is defined or even illustratively explained. This leaves applicants, intermediaries, and professionals uncertain about what may be settled and what cannot. Similarly, the framework offers no guidance on the appropriate form of settlement: which contraventions may be resolved through monetary terms alone, which require non-monetary commitments, and which warrant a blend of both. Nor is there clarity on the attribution of liability: when, and to what extent, is an individual held responsible for misconduct by

[10] *Sahoo M. S. & Sumit Agrawal, Predictability Eludes SEBI, The Financial Express 12th September 2025*

an entity, and under what circumstances should settlement obligations be imposed jointly and severally.

Settlement orders often lack essential details. Consider the contrast: following the Satyam scandal of 2009, the US regulators concluded proceedings by 2011 (Indian proceedings yet to conclude), imposing $7.5 million in penalties, censures, ongoing monitoring obligations, and far-reaching audit reforms on PwC, Satyam's auditors. The SEC's settlement order runs to over 16,000 words, rich in reasoning, factual context, and explanation. The level of detail not only justified the outcome but also created a road map for the market and future cases. In India, many consent orders are terse, leaving applicants and practitioners with limited insight into how terms were derived or why certain choices were made.

The Regulations prescribe a formula for determining settlement amounts. It, however, suffers from several limitations. First, the formula depends critically on inputs such as illegal gains made by the applicant or losses caused to investors. In practice, however, these inputs are frequently unavailable or incapable of reliable estimation. Many contraventions, such as disclosure failures, governance lapses, market abuse involving multiple instruments or time periods, or systemic compliance deficiencies, do not lend themselves to precise quantification of gains or losses. Even where gains exist, disentangling unlawful profits from legitimate earnings, or attributing investor losses to a particular default amid broader market movements, is methodologically complex and evidentially demanding. As a result, the formula often operates on missing or weak data, forcing the regulator to fall back on proxies or tabular values.

Second, excessive reliance on a formula risk obscuring material considerations. The formula, for instance, does not account for the strength of evidence and, consequently, the probability of establishing liability. If the formula yields a settlement amount of ₹1 crore while the likelihood of a successful enforcement outcome is only 10%, a rational applicant is unlikely to settle at that level and may prefer to contest the proceedings. This misalignment skews outcomes: cases supported by strong evidence tend to settle, while weaker cases drag through prolonged adjudication. Third, the formula is inherently designed around monetary terms. Certain violations may call for non-monetary remedies, such as changes in governance structures, strengthening of internal controls, market access restrictions, or undertakings to reform business practices. The formula offers no principled way to value or calibrate such non-monetary commitments, nor does it guide how they should interact with monetary terms when a blended settlement is appropriate. Consequently, decision-making risks becoming ad hoc, with non-monetary conditions imposed without a clear analytical link to the severity, nature, or consequences of the contravention.

Taken together, these limitations do not argue for abandoning the formula. Rather, they underscore the need to strengthen it by improving data collection and methodologies for estimating economic harm and by expanding the framework to systematically accommodate non-monetary and hybrid settlements through clearly articulated principles and reasoned deviations.

SUGGESTIONS

SEBI has initiated a comprehensive review of its regulatory framework, including the Settlement Regulations, with the objective of simplifying and rationalising them, and making them more enabling, proportionate, and responsive to present and emerging needs.[11] Set out below are a few suggestions to make the Settlement Regulations future-ready.

1. **Evidence-Based Framework:** SEBI has nearly two decades of experience in administering the settlement framework, supported by a rich dataset spanning thousands of applications and outcomes. This accumulated institutional knowledge is a valuable asset that remains underutilised. Systematic analysis of this data, covering acceptance and rejection patterns, settlement terms, timelines, nature of contraventions, and subsequent compliance behaviour, can yield objective insights into what works and what does not. Making structured datasets available in the public domain could further promote independent research and reveal novel insights. Evidence-based learning would enable refinements grounded in observed outcomes rather than intuition or anecdotal reasoning, and bland public consultation would help evolve the settlement framework into a more predictable, proportionate, and effective enforcement instrument.

2. **Comprehensive Framework**: In principle, no contravention should be considered inherently non-settleable. Every violation should be eligible for settlement, provided the terms are commensurate with its nature, scale, and severity. Appropriately structured settlements, combining monetary restitution, disgorgement of gains, and non-monetary measures such as governance reforms, compliance obligations, or market restrictions, can address even the most serious misconduct. For example, a person who has siphoned ₹5,000 crore should, in principle, be permitted to settle, provided they fully restitute the misappropriated amount and accept additional monetary penalties and non-monetary consequences proportionate to the severity and impact of their actions. This approach ensures that settlement remains a viable, credible, and proportionate enforcement tool across the spectrum of contraventions.

3. **Alignment of Settlement Terms:** SEBI initiates multiple types of enforcement proceedings, some of which culminate exclusively in non-monetary

11. *SEBI Chairperson's address at CII Financing Summit, November 17, 2025*

consequences, others in monetary sanctions, and some in a combination of both. Settlement terms should be aligned with the nature of the underlying proceedings. Where the proceedings contemplate only monetary consequences for a contravention, settlement should ordinarily be confined to monetary terms, without superimposing non-monetary conditions. Conversely, where the proceedings envisage non-monetary consequences, such as prohibitions or remedial measures, the settlement should incorporate appropriate non-monetary commitments, supplemented by monetary terms where warranted. Clear articulation of this alignment, along with guiding principles to determine non-monetary terms, would provide the market with upfront visibility on the nature of settlement terms likely to be expected.

4. **Determination of BA:** For the settlement formula to operate effectively, the Regulations should mandate the determination of BA based on estimated gains and losses arising from a contravention. Where such estimation is not possible, which must be subject to a predefined cap, say X% of the total, tabular values may be used. Regulations could introduce a structured categorisation of contraventions into, say, five tiers, for example, A1 (Major) to A5 (Minor), based on the nature and seriousness of the violation. Each category could then be quantified using objective parameters such as the number of investors affected, the amount of money involved, and the duration of the contravention, further classified into, say, five scales, B1 (Largest) to B5 (Smallest). BA could then be calibrated based on these combined parameters, reflecting the gravity of misconduct, and making the terms proportional, predictable, and transparent. Ideally, this should mirror the penalty guidelines for securities contraventions, which may also be issued. The framework should be sufficiently granular and detailed to eliminate the 'residuary' category in the Regulations. An illustrative format may be as follows:

(Base Amount in ₹)

Scale of Contravention → Nature of Contravention (Lists) ↓	B1	B2	B3	B4	B5
A1					
A2					
A3					
A4					
A5					

The Regulations should clearly specify when settlement may attract interest, and prescribe the applicable rate. Such rates should be standardised or objectively linked to a benchmark banking lending rate, rather than being left to the discretion of either party, to ensure consistency, fairness, and predictability in settlement outcomes.

5. **Benchmark Amount (BV X BA):** The regulations should specify that the benchmark amount be computed separately for each count of contravention, and that the total benchmark amount be calculated as the sum of these individual computations, rather than as a product of aggregated figures. The distinction between these two approaches has a significant impact, as illustrated below:

Contravention	BV	BA	BV × BA
1	1.5	30	45
2	1.8	50	90
3	1.2	70	84
Total (Σ)	4.5	150	219

Approach 1 (Count-wise): $\Sigma(BV\times BA) = 219$

Approach 2 (Aggregated): $\Sigma\, BV\times(\Sigma\, BA) = 4.5\times150 = 675$

Approach 2 produces an inflated and disproportionate benchmark amount, overestimating the settlement relative to the actual gravity of individual contraventions. Approach 1, which calculates benchmark amounts on a per-count basis, preserves fairness, proportionality, and integrity in settlement determinations and should therefore be mandated.

6. **Regulatory Action Factor:** Settlement terms impose an additional burden based on the applicant's past enforcement actions, aiming to deter repeat offenders, regardless of the time elapsed or the gravity of prior contraventions. This approach can result in a perpetual penalty, even for entities that have maintained years of compliant conduct. Introducing a defined lookback period, such as three to five years, or a sliding scale where older enforcement actions carry progressively reduced weight, would better align the framework with principles of fairness, proportionality, and the rehabilitative spirit of enforcement, while still discouraging habitual non-compliance.

   Simultaneously, SEBI could track whether entities that have settled are committing repeat violations, enabling an assessment of the framework's deterrent effectiveness. Persistent reoffending could trigger escalating multipliers or stricter consequences for habitual offenders, while demonstrated compliance following settlement could warrant more lenient treatment, reinforcing both accountability and the incentive for corrective behaviour.

7. **Mitigating and Aggravating Factors**: The Regulations should provide an exhaustive and clearly defined list of both mitigating and aggravating factors, along with assigned weights or scales for each, to guide

their application in determining settlement terms. These factors should capture the severity, impact, and context of each count of contravention, and the cumulative effect of all applicable factors for a count should not be constrained by arbitrary limits or ceilings, as is currently the practice. Importantly, the mitigating factor presently available to government entities should be withdrawn. On the contrary, such entities should be subjected to heightened scrutiny, given that they are expected to exemplify high standards of compliance, governance, and market conduct.

8. **Reasoned Discretion:** While the IC, HPAC, and PWTMs may exercise discretion to modify settlement terms arrived at through the formula, any such deviation must be explicitly explained and clearly justified. Discretion should operate as a reasoned exception, not an opaque departure, to ensure transparency, consistency, and credibility of the settlement process.

9. **Illustrative Calculations:** To enhance clarity and predictability, the regulations should include an appendix containing 10 illustrative calculations of settlement terms. These examples would demonstrate how the BA and settlement terms are determined across different types of contraventions, varying in seriousness, scale, and impact. Each illustration could combine factors such as the nature of the contravention, the number of investors affected, the amount of money involved, and the duration of the misconduct, showing how these inputs translate into monetary settlement terms. Additionally, aggravating and mitigating factors should be explicitly considered to calibrate the settlement terms appropriately. Where warranted, non-monetary settlement measures, such as governance reforms, compliance obligations, or market restrictions, should also be incorporated and illustrated. By providing such concrete examples, SEBI would help applicants, intermediaries, and professionals understand how the formula and discretionary factors are applied in practice, reduce uncertainty, and promote consistency and proportionality.

10. **Rectification of Contraventions**: Wherever a contravention is capable of being rectified, and such rectification advances a regulatory objective, such as protecting investors, restoring market integrity, or ensuring compliance, it should be rectified before a settlement is agreed. For example, misstatements in financial statements or books of accounts could be rectified, mandatory disclosures made, open offers executed where required under law, or unlawfully obtained gains disgorged. Allowing or requiring such rectification not only addresses the harm caused by the contravention but also reinforces the corrective and deterrent purpose of the regulatory framework. To facilitate this, SEBI could prescribe a streamlined or simplified process for carrying out these rectifications efficiently, ensuring that procedural complexity does not become a barrier to timely compliance or settlement.

    The settlement framework should reward correction, not just concession. Allowing applicants to rectify contraventions, through restated disclosures, restitution, or governance reforms, within a short window could moderate settlement terms while achieving regulatory purpose.

11. **Accountability of Individuals:** To ensure effective deterrence, accountability should extend beyond the entity to the individuals responsible for the contravention. If only the entity bears the settlement amount, investors and the market may suffer, while the actual wrongdoers escape consequences. The Regulations should specify when, where, and to what extent settlement terms can be attributed to individuals, ensuring that personal accountability complements corporate responsibility and reinforces deterrence in the regulatory framework. Such individual-level consequences could include monetary contributions, professional sanctions, compliance obligations, or reputational measures, thereby reinforcing both deterrence and the integrity of the regulatory framework.

12. **Joint and Several Liability:** In cases where multiple individuals or entities are responsible for a contravention, settlement terms should clearly address the principles of joint and several liability. The Regulations should specify how the total settlement amount or obligations are allocated among the responsible parties, ensuring that each party bears responsibility proportionate to their role and degree of involvement in the contravention.

13. **Two-Tier Structure:** Traditional adjudication on merits is concluded by an Adjudicating Officer, often at the level of a Deputy General Manager. Seen in this context, it is difficult to justify a consent application, which does not involve a finding of guilt, having to traverse three layers of scrutiny: the IC, the HPAC, and the PWTMs. The consent process should not be more exacting than adjudication on merits. It can be meaningfully streamlined by pruning it to two tiers, with clearly defined roles and mandates, thereby aligning the consent mechanism more closely with its objective of expeditious and efficient resolution.

14. **Communication of Counter Terms:** After the negotiation process, the IC should formally communicate the proposed counter-settlement terms to the applicant in writing. This communication should clearly outline the rationale behind each term, including the calculation of the monetary settlement, any non-monetary obligations, and the consideration of aggravating or mitigating factors. Providing a detailed, written communication ensures transparency, allows the applicant to understand how the terms were determined, and enables informed decision-making regarding acceptance or further discussion. It also serves as an official record of the negotiation process, promoting procedural fairness and accountability within the settlement framework.

15. **Detailed Settlement Order:** Settlement orders should be standardised, comprehensive, and transparent, clearly setting out the reasoning and methodology by which the settlement amount has been determined. They should disclose the full computation of the settlement, demonstrating how the prescribed formula was applied, including the calculation of the BA, consideration of aggravating and mitigating factors, and any adjustments made for non-monetary commitments. Where multiple contraventions are involved, the order should show how each count contributed to the total settlement. Such detailed disclosure not only enhances transparency and accountability but also helps applicants, intermediaries, and market participants understand the rationale behind the settlement, promotes consistency in enforcement, and strengthens confidence in the fairness and integrity of the regulatory framework.

16. **Rejection Orders:** SEBI publishes consent orders in the public domain but does not disclose orders rejecting consent applications. The latter are often more instructive, as they reveal the boundaries of settleable conduct and the considerations that weigh against settlement. Publishing rejection orders, along with the reasons for rejection, would provide far clearer guidance to applicants, intermediaries, and professionals on how SEBI interprets the regulations in practice. Legitimate confidentiality concerns can be addressed by anonymising such orders through redaction of names and identifying details, while still preserving the substantive reasoning that enhances transparency, consistency, and predictability in the consent framework.

17. **Time-bound Disposal:** The consent mechanism, intended as a faster alternative to full adjudication, must operate more swiftly than conventional proceedings. However, current experience is not encouraging. Analysis of 2024-25 cases indicates that the average duration between filing and issuance of a final order was approximately 312 days, with some cases extending beyond 18 months. Such delays undermine the predictability, effectiveness, and credibility of the framework, reducing its appeal to applicants and weakening its utility as a tool for timely enforcement. To address this, the Regulations should mandate strict, time-bound disposal of consent applications, with clear timelines and accountability at each stage.

18. **Digital Settlement:** The settlement framework should move to full end-to-end digital processing. The online settlement portal needs to be strengthened with features such as auto-save, scheduling of matters, live cause lists, and application-tracking dashboards, on the lines of SCORES, while eliminating the requirement of hard-copy filings altogether. These improvements would enhance efficiency, transparency, and user experience, and materially support the timely disposal of settlement applications.

    The next phase should be data-driven and forward-looking. AI tools can be leveraged to analyse precedents and compute indicative settlement amounts, improving standardisation and proportionality. A publicly accessible digital "Settlement Matrix" on SEBI's portal could allow applicants to simulate indicative outcomes before applying, reducing uncertainty and subjective negotiation. Over time, SEBI could explore smart settlements, AI-assisted computation, blockchain-based compliance tracking, and outcome-based monitoring of post-settlement undertakings.

CONCLUSION

The settlement mechanism goes beyond reducing litigation; it represents a fundamental shift in the relationship between regulator and the regulated. As securities markets become increasingly algorithmic, cross-border, and instantaneous, enforcement must evolve from a model of retribution to one of resolution. The next generation of settlement rules should prevent the recurrence of errors rather than punish every misstep. To achieve this, the regulations should institutionalise: (a) Fairness: Ensuring equitable treatment across all market participants; (b) Transparency: Making the process and rationale for settlement terms clear and visible; (c) Proportionality: Matching the penalty/settlement to the severity and nature of the infraction; and (d) Timelines: Disposing of consent applications in a time bound manner. The framework must rest on technological efficiency with regulatory empathy.

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