BLOGS

Passage-Based Questions on Corporate Law for CLAT PG

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Short selling is a sale of securities which the seller does not own but borrows from another entity, with the hope of repurchasing them at a later date with a lower price, thus attempting to profit from an anticipated decline in the price of the securities. In its report, Hindenburg Research admits to taking a short position in the Adani group through US-traded bonds and non-Indian traded derivative instruments. SEBI has submitted that short selling is a desirable and essential feature to provide liquidity and to help price correction in over-valued stocks and hence, short selling is recognised as a legitimate investment activity by securities market regulators in most countries. Short selling is regulated by a circular notified by SEBI on 20 December 2007. SEBI submits that any restrictions on short selling, may distort efficient price discovery, provide promoters unfettered freedom to manipulate prices, and favour manipulators rather than rational investors. Therefore, the International Organisation of Securities Commission recommends that short selling be regulated but not prohibited with an aim to increase transparency. We record the statement made by the Solicitor General before this Court that measures to regulate short selling will be considered by the Government of India and SEBI. SEBI and the investigative agencies of the Union Government shall also enquire into whether there was any infraction of law by the entities, which engaged in short-selling on this occasion. The loss which has been sustained by Indian investors as a result of the volatility caused by the short positions taken by Hindenburg Research and any other entities acting in concert with Hindenburg Research should be probed. ***Excerpt from Vishal Tiwari v. Union of India, 2024*** **1. In Vishal Tiwari v. Union of India (2024), the Supreme Court primarily dealt with issues relating to:** a. Criminal liability of company directors

b. Judicial review over regulatory authorities in financial markets

c. Constitutional validity of the SEBI Act

d. Insider trading under the Companies Act **2. If SEBI's regulations conflict with provisions of the Companies Act, the issue would be resolved primarily through:** a. Doctrine of eclipse

b. Doctrine of pith and substance

c. Harmonious construction and statutory interpretation

d. Basic structure doctrine **3. The Supreme Court refused to transfer the investigation from SEBI to an SIT/CBI primarily because:** a. The petition was not maintainable

b. SEBI lacked jurisdiction

c. No cogent evidence of regulatory failure or bias was shown

d. Financial matters are non-justiciable **4. A challenge that SEBI combines investigative and adjudicatory functions violates separation of powers would most likely fail because:** a. Separation of powers is absolute in India

b. Administrative tribunals are constitutionally impermissible

c. Indian constitutional scheme allows functional overlap subject to judicial review

d. SEBI is a constitutional body **5. Assertion (A): The principle of institutional competence limits the scope of PIL in economic regulatory matters.**

Reason (R): Courts recognize that expert bodies are better suited to handle technical financial regulation. a. Both A and R are true, and R is the correct explanation

b. Both A and R are true, but R is not the correct explanation

c. A is true, R is false

d. Both A and R are false **6. Assertion (A): SEBI may exercise extraterritorial jurisdiction in certain cases.**

Reason (R): If a transaction outside India has a substantial effect on Indian securities markets, regulatory action may be justified. a. Both A and R are true, and R is the correct explanation

b. Both A and R are true, but R is not the correct explanation

c. A is true, R is false

d. Both A and R are false **7. In the context of Public Interest Litigation (PIL), this judgment suggests that:** a. Courts must always appoint SITs in economic scandals

b. PIL jurisdiction extends to substituting expert regulators

c. Economic matters are completely outside PIL jurisdiction

d. PIL cannot be used to demand policy substitution without evidence **8. The Supreme Court appointed an Expert Committee primarily to:** a. Replace SEBI

b. Conduct criminal prosecution

c. Examine regulatory mechanisms and investor protection framework

d. Freeze all stock market trading **9. Which of the following best reflects the Court's reasoning regarding transfer of investigation from SEBI?** a. Transfer is automatic in cases involving large corporations

b. Transfer requires political approval'

c. Transfer is justified only when there is clear inaction, bias, or lack of credibility

d. Transfer depends solely on public sentiment **10. The Supreme Court in which of the following cases reiterated judicial restraint in policy matters and decided not to interfere with SEBI's expertise?** a. IFB Agro Industries Ltd v. SICGIL India Ltd

b. MBL and Co. Ltd. v. SEBI

c. Shankar Sharma v. SEBI

d. Rajesh Gupta v. SEBI **11. In which of the following cases it was stated that to transfer an investigation there must be a "glaring, willful and deliberate inaction" or bias?** a. Himanshu Kumar v. State of Chhattisgarh

b. IFB Agro Industries Ltd v. SICGIL India Ltd

c. Prakash Gupta v. SEBI

d. T. Takano v. SEBI **12. Identify the correct statements with regard to Vishal Tiwari v. Union of India:** I. Judicial intervention is reserved for cases where a policy clearly breaches fundamental rights, is unconstitutional, or is blatantly arbitrary.

II. The ruling strengthens the authority and autonomy of SEBI

III. Supreme Court reaffirmed that it will not function as an appellate body for the policy choices of expert regulators a. I and II only

b. II only

c. II and III only

d. All of the above **13. If SEBI fails to complete investigation within reasonable time and credible evidence of manipulation exists, the Supreme Court may:** a. Automatically dissolve SEBI

b. Transfer investigation invoking constitutional powers

c. Amend the SEBI Act

d. Order stock exchanges to shut down **14. In Vishal Tiwari, the Supreme Court declined to transfer the investigation from SEBI to SIT/CBI. This reflects which deeper constitutional concern?** a. Federal supremacy

b. Avoidance of judicial overreach into executive domain

c. Parliamentary privilege

d. Protection of corporate entities **15. Assertion (A): Independent regulators like SEBI can constitutionally exercise quasi-judicial powers.**

Reason (R): The Constitution permits delegation of adjudicatory authority to specialized

statutory bodies subject to judicial review. a. Both A and R are true, and R is the correct explanation

b. Both A and R are true, but R is not the correct explanation

c. A is true, R is false

d. Both A and R are false **Answers** (B) (C) (C) (C) (A) (A) (D) (C) (C) (A) (A) (D) (B) (B) (A)