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Settling with SEBI, Recalibrated: The 2026 Settlement Regulations

What Was Not Working, What Has Changed and What Comes Next

By a notification dated October 6, 2026, published in the Official Gazette on October 7, 2026, the Securities and Exchange Board of India ("**SEBI**") has issued the SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2026 (the "**2026 Regulations**"), which replace the SEBI (Settlement Proceedings) Regulations, 2018 (the "**2018 Regulations**"). The 2026 Regulations come into force on the 31st day from the date of their notification in the Official Gazette, i.e., November 7, 2026.

At a Glance

- Settlement amounts now start from the minimum statutory penalty for each count of default, scaled by the type of applicant, the stage of the proceeding, prior regulatory action, gravity and aggravating and mitigating factors.
- Wrongful gains, losses averted and losses caused to investors no longer form part of the base amount and are disgorged separately, with interest.
- Eight specified fact patterns, such as an applicant's insider trades on one piece of unpublished price sensitive information ("**UPSI**") in one UPSI period, each count as a single default.
- The limitation period is 90 days from service of the show cause notice, compared with 60 days under the 2018 Regulations. A withdrawn application can be refiled at a 20% premium (compared with at least 50%), and a rejected one at a later stage, also at a 20% premium, if the reason for rejection no longer applies.
- In proceedings other than those solely for a penalty, the 2026 Regulations specify settlement terms for misstated financial statements and diverted funds: disclosure and, for diverted funds, return of the money to the company with interest; where all diverted funds are to be returned with interest, the loss caused to investors by the diversion is not by itself an impediment to settlement.
- Proceedings pending on commencement with no application, or with one rejected, returned or withdrawn under the 2018 Regulations, have a one-time 90-day window, until February 5, 2027, at a 20% premium.

Background

Settlement before SEBI dates back to a circular of April 20, 2007. The 2018 Regulations came into force on January 1, 2019 and were amended, including in 2022, when the stage-based conversion factors were revised and the facility to file a delayed application was withdrawn. As SEBI's consultation paper of August 14, 2026 (the "**Consultation Paper**") records, the Securities Appellate Tribunal ("**SAT**") urged SEBI in orders of 2022, 2023 and January 2026 to consider settlement schemes that could help dispose of the large number of pending matters.

According to the memorandum placed before SEBI's Board on September 24, 2026 (the "**Board Memorandum**"), of the 1,576 settlement applications filed in the last three years, 568 resulted in settlement and 640 were returned, rejected or withdrawn. In a separate study of applications filed over two years in which settlement could not be reached and a penalty was later imposed, SEBI found, leaving out outliers, that the settlement amounts proposed and not accepted averaged eight times the penalty ultimately imposed.

In the Consultation Paper, SEBI concluded that settlement amounts should not be so high as to defeat the purpose of settlement, while acting as a sufficient deterrent and remaining at a premium to the outcome of enforcement proceedings. According to the Board Memorandum, the proposals drew 228 comments from 15 entities. SEBI's Board approved the 2026 Regulations on September 24, 2026.

Key Changes

1. The settlement amount

Under the 2018 Regulations, the base amount was drawn from one of five base amount tables in the schedule. The Consultation Paper acknowledged that the tables were not comprehensive and that a substantial number of violations fell into the residuary entry, leading to base amounts that were either higher or inadequate. Where a wrongful gain was made or a loss caused to investors, the base amount was the higher of the table amount and that gain or loss, and the gain was then also disgorged. Where the gain exceeded the table amount, it was in effect counted twice.

Regulation 10(1) of the 2026 Regulations replaces this with a single formula:

"Settlement Amount (SA) = BA x (S+R+G+A-M)"

The base amount ("**BA**") is the minimum penalty applicable under the Securities and Exchange Board of India Act, 1992 (the "**SEBI Act**"), the Securities Contracts (Regulation) Act, 1956 and the Depositories Act, 1996 for each count of default, multiplied by a factor for the type of applicant (Regulation 11). It is doubled for a lead conspirator alleged to be the mastermind or key operator; for an independent director alleged to have benefited from or actively participated in a fraud, it is taken at par with an executive director (Regulations 11(2)(iv) and (v)); and it cannot be lower than a penalty already imposed for the default (Regulation 11(3)).

Table no. 1

Type of applicant	Multiplier
Independent director	2
Other natural person	2.5
Non-executive director	3
Executive director, promoter in control or key managerial person	3.5
Body corporate, intermediary, pooled investment vehicle and others	4
Market infrastructure institution	5.5

The base amount is multiplied by the total of the stage of the proceeding ("**S**"), prior regulatory action ("**R**"), gravity ("**G**") and aggravating factors ("**A**"), less mitigating factors ("**M**"). The stage factor is 0.20 for a *suo motu* application, 0.40 for another voluntary application before a show cause notice, 0.60 after the show cause notice, and 0.80, 1.00 and 1.50 at later stages, up to a proceeding pending before the Supreme Court (Regulation 12). Each prior settlement order adds 0.20 (against 0.01 under the 2018 Regulations), each administrative warning 0.10 and each adverse order 0.30, including orders stayed on appeal (Regulation 13). Gravity includes 0.25 for reputation risk in every settlement made without admitting the violation, with further values for specified violations, such as 1.50 for a violation of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (the "**PFUTP Regulations**") (Regulation 14).

Two floors apply. If the total (the "**factor sum**") is less than one, it is taken as one, and the settlement amount cannot fall below INR 300,000 for a first-time applicant or INR 700,000 for others (Regulations 10(2) and (3)). A first-time applicant is one against whom no adverse order has been passed by SEBI or an adjudicating officer, and who has never obtained a settlement order from SEBI.

> *Illustration: An intermediary furnishes incomplete information in a report filed with SEBI, alleged as one count, only under Section 15A(a) of the SEBI Act, where the minimum penalty is INR 100,000. The base amount is INR 400,000 (INR 100,000 × 4). With no prior regulatory action, no aggravating or mitigating factors and no legal costs, settling without admission after the show cause notice gives a factor sum of 0.85 (0.60 for the stage and 0.25 for reputation risk), which is taken as one, so the settlement amount is INR 400,000, above the INR 300,000 floor for a first-time applicant. Applying before the show cause notice gives a factor sum of 0.65 and the same INR 400,000. With two prior settlement orders, the factor sum after the show cause notice would be 1.25, producing INR 500,000; the intermediary would not be a first-time applicant, so the INR 700,000 floor would apply.*

Where the factor sum is below one, therefore, the settlement amount is the base amount or, if higher, the applicable minimum amount, and neither an earlier application nor additional mitigating factors will reduce it. Mitigating factors were capped at three under the 2018 Regulations, against up to seven aggravating factors across the general, deliberate and reckless categories; both are now capped at five, each worth 0.20 (Regulations 15 and 16). New mitigating factors include a change in control or management of the corporate entity since the violation and an applicant who was an independent director at the time of the alleged default and did not benefit from it. SEBI's Panel of Whole Time Members (the "**Panel**") may decide an amount lower or higher than the amount arrived at under the 2026 Regulations, for reasons to be

recorded (Regulation 25(4)), and may decide the amount where it cannot be determined under Regulations 10 to 16 because of the peculiar nature of the alleged default or the facts and circumstances of the case (Regulation 10(7)).

Wrongful gains, losses averted and losses caused to investors no longer form part of the base amount; they are disgorged as a separate settlement term (Regulation 9(1)(ii)), with interest at 9% per annum until the settlement application is filed, and at 12% for the period after a final order of SEBI (Regulation 20). SEBI estimated in the Consultation Paper that its proposals would reduce the amounts in its sample of failed-settlement cases from about eight times to four times the penalty finally imposed.

2. Counting defaults

The 2018 Regulations left the count of defaults largely to discretion, offering several methods, including a "*course of conduct*" standard, and the Consultation Paper observed that the repetitive nature of a default had not been clearly defined. Regulation 11(8) now lists eight instances, each treated as one count of default, including insider trading on a particular piece of UPSI in one UPSI period, front running the trades of a particular big client during the investigation period, and orders or trades for manipulating the price or volume of a scrip. The Panel may treat other defaults as one, and may increase or reduce the count (Regulations 11(8)(i) and 11(9)).

The final list is shorter than the one proposed. Several of the Consultation Paper's disclosure items have been consolidated into one item covering false, wrong or misleading disclosures, or failures to make required disclosures, "*in a statement in a calendar year or financial year*" (Regulation 11(8)(d)), following public comments recorded in the Board Memorandum. The Consultation Paper's items for misleading statements in a single advertisement, disclosure or corporate announcement and for event-based disclosures arising from one event do not appear in the final text, and the Board Memorandum does not address them. Unless the Panel uses its residuary power, such defaults may be counted separately.

3. Time limits, refiling and the settlement notice

Under the 2018 Regulations, an application had to be filed within 60 days of service of the show cause notice, with no facility for delay after 2022, and a rejected application could not be refiled. The limitation period still cannot be extended (Regulation 42(2)).

Table no. 2

Issue	2018 Regulations	2026 Regulations
Limitation period	60 days from service of the show cause notice; no limit for proceedings before SAT or a court	90 days; no limit for proceedings pending before SAT or the Supreme Court (Regulation 4)
Refiling after withdrawal	Only on the recommendation of the High Powered Advisory Committee ("**HPAC**"), with at least a 50% increase	At the same or a later stage, with a 20% increase (Regulation 7(5))
Refiling after rejection	Not permitted	At a later stage, if the reason for rejection no longer applies, with a 20% increase (Regulation 7(4))

The discretionary settlement notice was omitted from the 2018 Regulations in July 2020, and, as the Consultation Paper observed, there was then no mechanism by which an entity could become aware of an impending proceeding before the show cause notice. Regulation 5 now requires SEBI to issue a settlement notice, indicating the substance of the probable charges and enforcement action, before issuing a show cause notice, and gives the entity 60 days from receipt to apply, except where interim directions or prosecution are contemplated or in violation-based fast track cases. An application made before a show cause notice keeps the issue of the show cause notice in abeyance until the application is disposed of or withdrawn (Regulation 8(2)).

An application on a settlement notice attracts the stage factor of 0.40 that Regulation 12 assigns to a voluntary application "*Before issue of Show Cause Notice*", against 0.60 after it. As the illustration in Section 1 shows, the floors absorb some or all of that difference; the difference has full effect only where the factor sum would exceed one even before the show cause notice, as it may in cases under the PFUTP Regulations (gravity 1.50) or under Regulations 3 and 4 of the SEBI (Prohibition of Insider Trading) Regulations, 2015 (gravity 0.50).

4. Fast track settlement

Under the 2018 Regulations, an application went through the Internal Committee, the HPAC and the Panel, whatever its size, unless it fell within the summary procedure for specified defaults. Under Regulation 28, where the Internal Committee finds that the settlement amount is up to INR 1 million and no disgorgement or remedial and regulatory term applies, the application now goes to the Panel without reference to the HPAC; the Board Memorandum records that around 25% of applications in the preceding three years fell within this threshold. The summary procedure continues as violation-based fast track settlement (Regulation 27). An entity that does not act on a violation-based fast track notice, or does not pay or file revised terms under Regulation 28, may file a settlement application only at a subsequent stage of the proceeding (Regulation 29).

5. Misstated financials and diverted funds

Under the 2018 Regulations, SEBI could decline to settle a matter with market-wide impact, losses to a large number of investors or an effect on market integrity, and, as the Consultation Paper noted, such cases did not pass through the Internal Committee or the HPAC. Misstatement and diversion cases were sometimes rejected on this ground. The bar remains (Regulation 6(2)), but these factors may now be examined by the committees (Regulations 22(5)(c) and 24(1)(b), read with Regulations 18(1)(d) to (f)), and settlement may be considered where they could be adequately remedied through monetary and remedial and regulatory terms, including a higher settlement amount (Regulation 18(2)).

In proceedings other than those solely for a penalty, Regulation 17(2) provides for disclosure of the misstatement and, where funds have been diverted, their return to the company with interest; where the applicant is willing to bring back all diverted funds with interest, the diversion is not to be an impediment to settlement on the ground that it caused loss to investors (Regulation 17(2)(vii)). Where the alleged violation has affected audited financial statements (Regulations 17(2)(i) and (ii)), the applicant may state in its disclosure and the explanatory notes that it is making the disclosure "*without admission or denial of the findings of fact and conclusions of law*" (Regulation 17(3)).

A proceeding cannot, however, be settled where the applicant has been categorized as a willful defaulter or fraudulent borrower by a bank or financial institution in accordance with the Reserve Bank of India's

guidelines, or is a fugitive economic offender (Regulation 6(1)(iii)). Under the 2018 Regulations, SEBI had only a discretion not to settle with willful defaulters and fugitive economic offenders (Regulation 5(4) of the 2018 Regulations). The bar may exclude some diversion cases altogether.

6. Settlement terms and disclosures

Remedial and regulatory terms, as non-monetary terms are now called, apply only in proceedings other than those solely for the imposition of penalty, while disclosures, as applicable, form part of the settlement terms whatever the nature of the proceeding (Regulations 9(1)(iii) and 9(3)). Settlement terms "*shall apply to the person who has made the application for settlement*" (Regulation 9(4)), although an asset management company or investment manager may be required to pay the settlement amount where a pooled investment vehicle settles (Regulation 22(5)(f)), and voluntary debarment is limited to cases where the violation is of very high seriousness and gravity, the applicant is a key operator, leader or main beneficiary, or the applicant is a serial defaulter (Regulation 17(1)(xi)).

Under the 2018 Regulations, an application in a disclosure-related matter was expected to be made, to the extent possible, after the disclosure, so, as the Board Memorandum noted, an applicant could make the disclosure and then see its application rejected. Disclosures are now a settlement term (Regulation 9(3)), to be fulfilled, or undertaken in writing, after the Panel has accepted the settlement terms (Regulation 25(3)).

7. Other changes

Revocation of a settlement order for non-compliance is now discretionary and requires a hearing (Regulation 39). Co-noticees cannot rely on another noticee's settlement order to seek exoneration or to contend that the proceedings against them have become infructuous (Regulation 38(5)). The application fee rises to INR 25,000 for natural persons and INR 35,000 for others (Regulation 3(3)).

Changes Made After Consultation

Several provisions changed between the Consultation Paper and the final text, some on public comment and some on SEBI's internal review.

Table no. 3

Proposal in the Consultation Paper	Change in the final text	Effect for applicants
Communication of one piece of UPSI to several persons as one count	Added on public comment, the Board Memorandum describing its omission from the draft as a "drafting miss"	Favorable
Repetitive defaults	Repetition assessed only within the proceeding being settled, on public comment	Favorable
Returned applications	On internal review, an application returned and not refiled in time is deemed withdrawn, so it may be refiled at the same or a later stage with the 20% premium	Favorable

Proposal in the Consultation Paper	Change in the final text	Effect for applicants
Disgorgement as a non-monetary term	Extended, on public comment, to adjudication matters where gains are quantified and not already directed to be disgorged; disgorgement is now a separate settlement term (Regulation 9(1)(ii))	Adverse
One-time window premium of 10%	Increased to 20% on internal review, at par with the premium on refiling after rejection	Adverse

SEBI did not accept requests to raise the fast-track threshold to INR 2.5 million or INR 5 million, to replace calendar days with working days, or to give cooperation a standalone credit outside the cap on mitigating factors.

Transition

Under Regulation 44, applications pending on commencement in which the Panel has approved the settlement terms will be dealt with on those terms under the 2018 Regulations. Where the HPAC has made a recommendation that is yet to be approved, the applicant may choose, within 30 days from receipt of a notice from SEBI, between fresh processing under the 2026 Regulations and the settlement amount recommended by the HPAC under the 2018 Regulations. Applications in which the HPAC is yet to make a recommendation will be dealt with afresh under the 2026 Regulations, and summary settlement notices issued under the 2018 Regulations are deemed to have been issued under the 2026 Regulations (Regulation 45(2)(a)).

For any specified proceeding pending on commencement in which a settlement application was never filed, or was rejected, returned or withdrawn under the 2018 Regulations, the application is to be filed within 90 days from commencement, and the settlement amount is 20% more than the amount calculated under Regulation 10 (Regulations 4(3) and (4)). Where the 60-day period under the 2018 Regulations has expired, this window may be the only route to settlement at the current stage of the proceeding; the Board Memorandum describes these applicants as ones "*who otherwise do not have the opportunity to come again before Board*". According to the Board Memorandum, the window is intended for proceedings still pending before SEBI or an adjudicating officer, and SEBI declined to extend it to appeals before SAT or the Supreme Court because appellants may apply at any time.

Three points about the window may need clarification. First, unlike the draft in the Consultation Paper, which was confined to proceedings "*pending before the Board*", Regulation 4(3) refers to any specified proceeding pending on commencement, a term that includes appeals pending before SAT or the Supreme Court; read literally, the window and its 20% premium may therefore reach appeals, contrary to the intent recorded in the Board Memorandum. Second, on a literal reading, the window and its premium also reach a proceeding in which the show cause notice was served shortly before commencement and the ordinary 90-day period has not expired. Third, the 2026 Regulations do not say whether an applicant who misses the window may apply at a later stage. The Panel's power to relax a timeline where the deadline is not more than 30 days old and the delay was due to factors beyond the applicant's control (Regulation 42(1)) is excluded for Regulations 4(1) and 5(1), but not for the window (Regulation 42(2)).

Action Points for Noticees

a. **One-time window**: Any proceeding pending on commencement in which no application was filed, or an application was rejected, returned or withdrawn, should be reviewed now. Applications must be filed by February 5, 2027 (Regulation 4(3)).

b. **HPAC option**: Applicants with an HPAC recommendation awaiting approval will have 30 days from receipt of SEBI's notice to choose (Regulation 44(ii)), and should prepare the comparison in advance.

c. **Regulatory record**: Prior settlement orders, administrative warnings and adverse orders, including orders stayed on appeal, determine the regulatory action factor, and any prior settlement order from SEBI, or adverse order passed by SEBI or an adjudicating officer, means that the INR 700,000 floor, not the INR 300,000 floor, applies (Regulations 10(3) and 13).

d. **Recomputation**: Amounts modeled under the 2018 Regulations should be recomputed under the new formula, with disgorgement and interest computed separately.

e. **Approvals**: The 60-day period from receipt of a settlement notice cannot be extended (Regulation 42(2)). Boards and overseas parents should settle in advance who will approve a settlement.

f. **Complete application**: The form calls for a full and true disclosure of facts, including the loss caused, profit made or loss avoided and how it is calculated (Schedule I, Part-A). An application that is not true and complete is returned, and if a complete and revised application is not submitted within 15 days from SEBI's communication, it is deemed withdrawn, so that refiling attracts the 20% premium (Regulations 3(6), 3(7) and 7(5)).

Conclusion

The 2026 Regulations replace the table-based computation with a single formula, disgorge gains separately from the settlement amount, extend the limitation period to 90 days, permit a rejected application to be refiled at a later stage, and specify settlement terms for misstated financial statements and diverted funds. Noticees with pending proceedings should recompute their position under the new formula, and those eligible for the one-time window should file by February 5, 2027.

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