

Finfluencers on social media: a new threat to the integrity of the capital market



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GENESIS OF THE LEGAL FRAMEWORK

Financial Influencers (popularly known as Finfluencers) have increasingly turned to social media platforms such as YouTube, X (formerly Twitter), Instagram, Telegram, and WhatsApp to offer advice on investments in stocks, bonds, and other financial products. Many of these Finfluencers operate under the guise of providing educational or training content while actually offering unregulated

including stockbrokers, mutual fund distributors, and investment advisors—from associating with Finfluencers in any manner. This includes financial arrangements, digital collaborations, marketing tie-ups, referral programs, or sharing customer data.

This directive aims to cut off monetary and promotional support for unregistered Finfluencers and prevent them from gaining credibility through association with SEBI-registered entities. It further prohibits unregistered Finfluencers from:

- Providing investment recommendations or return projections.
- Using real-time market data to offer trading tips disguised as education.
- For educational content, only trading data that is at least three months old may be used.

SEBI ACTION AGAINST PROMINENT FINFLUENCERS

In a landmark case, SEBI passed an **interim order** on **February 6, 2025**, against **Asmita Patel**, known as the “Options Queen,” and five others. The order alleged violations of SEBI’s Investment Advisors Regulations, 2013, Research Analysts Regulations, 2014, and the Prohibition of Fraudulent and Unfair Trade Practices Regulations, 2003.

SEBI impounded **₹54 crore** collected from investors and issued a show-cause notice asking why they should not be directed to **disgorge an additional ₹104 crore**. The accused were barred from accessing the securities market. The investigation revealed that Patel and her team provided unauthorized investment advice through Telegram and Zoom and sold “educational courses” without the requisite SEBI registration.

SEBI’S INITIATIVES VS GLOBAL REGULATORY APPROACH

SEBI’s **Concept Paper and enforcement action** taken against Asmita Patel reflect the regulator’s growing concerns over the risks posed by online misinformation to the investors and other market participants. It seems that regulators from different jurisdictions like Australia, Italy, UAE, Canada and Hong Kong are taking coordinated international crackdown on Finfluencers to protect the integrity of the stock markets.

SEBI’s stance that Finfluencers must be registered as investment advisors or research analysts is in alignment with global regulatory practices:

- **Australia:** Finfluencers must either hold a license from the **Australian Securities and Investments Commission (ASIC)** or operate under a licensed financial services entity, which is then held liable for any misinformation.
- **United Kingdom:** Financial promotions are allowed only by individuals authorized under the **Financial Services and Markets Act, 2000**, or by those approved by authorized firms. U.K. has also recently enacted a new law **Online Safety Act** with an aim to regulate digital platforms primarily, but it also has

investment advice.

In an effort to curb the spread of potentially misleading financial information and to protect investors from unregistered entities, SEBI released a **consultation paper** on **October 22, 2024**, proposing a draft circular for recognizing certain digital platforms as **Specified Digital Platforms (SDPs)**. The primary objective of this initiative is to regulate platforms that enable unfiltered financial advice and advertisements, ensuring investor protection from misleading and harmful content.

On **December 4, 2024**, SEBI clarified that, initially, SDP recognition would be **voluntary**, not mandatory. However, as of now, SEBI has not formalized the draft into a binding circular, nor has any platform been officially recognized as an SDP.

META’S VOLUNTARY COMPLIANCE

Taking proactive steps, **Meta** announced on **June 26, 2025**, a new advertising policy effective **July 31, 2025**, requiring advertisers promoting investment products to Indian audiences to verify the identity of the advertiser and submit valid SEBI registration details. This applies even to global campaigns targeting Indian users. The policy, aimed at Facebook and Instagram, intends to address the rise of unregulated investment advice on its platforms.

ROLE OF ASCI

The **Advertising Standards Council of India (ASCI)** also introduced updated guidelines for influencers in 2023. These require influencers to disclose any material connection with the advertiser, especially when promoting products or services in the banking, finance, or insurance sectors. Although ASCI advises influencers in these sectors to register with SEBI, its guidelines remain **voluntary and non-binding**.

RESTRICTIONS ON REGISTERED INTERMEDIARIES

In a major move on **January 29, 2025**, SEBI issued a circular **prohibiting registered market intermediaries—**

become a new tool in the hands of **Financial Conduct Authority (FCA) to ensure that the fraudulent promotions and misleading content is removed promptly**

- **United States:** The **Securities and Exchange Commission (SEC)** updated its **Investment Advisors Act** to regulate endorsements and testimonials, requiring influencers to disclose potential risks alongside advertised benefits.

While global regulators are evolving to ensure that financial promotions are legitimate, **India is unique** in proposing the **Specified Digital Platform (SDP)** framework. If implemented, SDPs would be under SEBI's regulatory oversight regarding investment advice conducted through their platforms—offering additional protection for both investors and registered intermediaries.

LEGALITY OF THE SDP PROPOSAL

While the SDP proposal is innovative, it raises legal questions. Under **Section 12(1)** of the SEBI Act, only specified entities—like stockbrokers, sub-brokers, share transfer agent, banker to an issue, trustee of trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager and investment advisor—are mandated to register with SEBI. All such intermediaries are required to buy, sell or deal in securities only in accordance with the conditions of certificate of registration obtained from SEBI and in accordance with the regulations made by SEBI in this regard. It is pertinent to note that the SEBI Act was amended in 1995 to include newer entities like

depositories, depository participants, custodians of securities, foreign institutional investors, venture capital funds and collective investment schemes including mutual funds, under the umbrella of SEBI. It may thus be observed that **social media platforms are not among the entities currently regulated by SEBI.**

To legally enforce the registration of digital platforms as SDPs, **an amendment to the SEBI Act** would likely be required. Since social media platforms do not primarily function within the securities market, expanding SEBI's jurisdiction over them may be viewed as legislative overreach. The Government of India is reportedly exploring legal options, potentially aligning with foreign practices, to impose broader restrictions on digital platforms.

CONCLUSION

Unchecked freedom on digital platforms poses a growing risk to public trust, particularly in the realm of financial advice. Governments globally are moving to create frameworks that ensure the authenticity of content shared online. While SEBI's steps—like prohibiting intermediaries from associating with Finfluencers—are commendable, **investor safety will be further enhanced if platforms themselves adopt self-regulatory mechanisms.**

The ideal way forward lies in a **hybrid model**: a regulatory framework complemented by **platform-level self-regulation**, where only **qualified, SEBI-registered Finfluencers** are allowed to promote financial products. Such a balance will ensure both market integrity and investor protection in a rapidly evolving digital ecosystem.