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THE ROLE OF FINFLUENCERS IN FINANCIAL MARKETS: MANIPULATION, RISKS, AND THE NEED FOR REGULATORY ACTION

By *Hardik Gupta and Riddhima Gupta*
From *Institute of Law, Nirma University*

ABSTRACT

The inception of Dutch East India Company in the stock market caused stock exchanges to deduce the world's emotions into numbers. Today these emotions are manipulated through the gigantic network of social media platforms. Since stock markets are inherently susceptible to misleading, unconfirmed, and insider data being transmitted as facts through content that is placed on social media platforms that support and preserve the anonymity of their users. This cloak of anonymity allows for the possibility of market manipulation to take place in a relatively risk-free environment. This veil of anonymity is supported by social media platforms, which collectively have more active users than the readership of daily newspapers.

This paper illuminates the issue that these platforms are not adequately regulated, leading the uploaded content to turn an existing and successful investment into worthless garbage through manipulation. The understanding behind the word finfluencers will be conspicuous. We find that various tactics and schemes are still being promised with the help of finfluencers to siphon investors' money. The consequences of these illegal transactions are prohibited by law. This paper proposes a resolution to the Indian market regulator to enforce a few laws and regulations to promote lawful and safe transactions. The paper also provides an insight on what trends have been followed globally. The methodology used while writing this paper includes reviewing existing literature, orders, reports, regulations amongst others.

Keywords: Finfluencers, Market Manipulation Techniques, Social Media, Stock Market, SEBI

I. INTRODUCTION

The stock market, with each rise and fall, weaves a narrative of human emotion. Greed and fear entwine, giving birth to waves of optimism and pessimism that sway the fate of companies and portfolios. It is a vivid canvas of financial drama. This stock market in the Indian economy has a total capitalisation of more than 30,002,263 Cr[1] today. The Indian economy is a magnificent tapestry of vibrancy and diversity, unveiling a captivating panorama of growth and resilience. It is a symphony of ingenuity and aspiration, where ancient wisdom and modern progress converge in a harmonious dance. The strengths have been tested from time to time for example, today's Sensex Index in the stock market stand at twice the value it had during the pandemic in 2020. The Indian Economy and Stock Market intertwine and influence each other in a favourable environment. In recent years, it has been influenced by a fresh wave of technology which comes with both a positive and a negative side.[2]

The Securities and Exchange Board of India (hereinafter as SEBI) is the regulatory authority for the securities market in India. SEBI plays a crucial role in maintaining investor confidence, market integrity, and stability in the Indian securities market. It aims to create an environment that facilitates fair and transparent dealings, encourages capital formation, and fosters the growth of the Indian economy.

The following is the structure of the article's format which has been followed. It starts by describing the problem that we are now facing. It is going to offer an explanation of the issue on a fundamental level. The next section of the article delves into finfluencing and the acts carried out by those who practice unsolicited financial influencing. After this, there will be a review of the many market manipulation methods utilised in the present-day world. The laws, rules, regulations, and guidelines pertaining to market manipulation strategies will be covered in the next part. In the end, solutions have been presented, which can be broken down into two segments each. First, the considerations that investors need to keep in mind while making

[1] BSE, https://www.bseindia.com/markets/equity/EQReports/allindiamktcap.aspx (last visited Aug 1, 2023).

[2] *How stock market affects economy*, GROWW (Aug. 1, 2023, 9:29 PM), https://groww.in/blog/how-stock-market-affects-economy.

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investments, and second, the rules and guidelines that SEBI needs to implement at the earliest.

This paper talks about how people are trapped in the stock market due to several circumstances. In this day and age, the vast majority of these individuals do not conduct independent research and study pertaining to the market. They would instead work based on the study conducted by others. People start putting their faith in those who have been actively participating in the market's activities for a longer time. This trust is being turned into a business by a few individuals. This article presents several instances and cases of fraudulent investing activity from throughout the world. Because of the stringent rules that are in place in some nations, many of these cons have been uncovered and brought to justice.

This paper aims to demonstrate to the audience how one can fall victim to the psychological manipulations that are prevalent on social media platforms. Until such time as SEBI's regulations are brought up to date and brought into compliance, investors have been provided solutions in the article that can help them protect themselves from any type of investment fraud. It has been urged on multiple occasions that the government should issue regulations and legislations. Some suggestions for the regulations to be made by SEBI have also been made in the article. If India were to adopt specific policies that are prevalent in other countries, it would result in a significant improvement.

II. ISSUE AT HAND

Trouble begins to arise when an inexperienced investor seeks online investment guidance.
These people get bombed on their social media with a range of investment suggestions. Rewards such as fast money are promised by various financial influencers. The inviting and fascinating content drives the investor to bet his money on the security market. This advice is unsolicited and unregulated; these pieces of advice have the potential to do significant financial harm to the investor. Whereas those who have a hand in causing these losses continue to make a career out of it. This has been increasing with time, and the main cause behind this is the lack of a proper system to check and regulation by SEBI. Youth possess the most active social media accounts today. As a result, they make up the target demographic and are the ones who are caught the majority of the time. The responsible stakeholder in this situation are financial influencers, government authorities and concerned citizens. At the present time, it is essential to discover a way to overcome this challenge that the stock market is experiencing.

III. WHO ARE FINFLUENCERS

The term "finfluencer" refers to individuals who exert their influence in the realm of personal finance and monetary matters. Finfluencers promote their content through a range of online venues, including YouTube, Instagram, and Twitter, among others. Their content offers guidance on topics such as personal finance, investing, the real estate market, cryptocurrency, and following latest financial trends. The rise of financial influencers in India can be traced back only a few years, specifically to the period of time of Covid-19 when many people were interested in investing their money.

influencers are not expected to possess the same level of industry knowledge as licenced financial professionals and are not bound by the same rules. Through the videos they broadcast on numerous platforms, financial influencers make money. In addition, they make money by promoting trading platforms, partnering with brands, and running advertisement. They use the fact that people rely on them for financial guidance for their own personal gain. Numerous unaccredited influencers emphasise the advantages of investment and fake promises about high returns without outlining the potential drawbacks to their audience. Many investors face huge losses due to following the unsolicited advices. These unscrupulous practices are not being regulated by any authority.[3] They are also referred as misleading gullible advisors.

In India, where fundamental financial literacy and money management is not taught in schools, people often turn to the internet for advice. Often, the attention of the viewer's here is captured by influencers who produce short yet engaging and

[3] Rebecca Bundhun, *Will India regulate 'finfluencers' as a rising number fail to adhere to the rules?*, THE NATIONAL NEWS (Aug. 1, 2023, 1:29 PM) https://www.thenationalnews.com/business/economy/2023/06/05/will-india-regulate-finfluencers-as-a-rising-number-fail-to-adhere-to-the-rules/.

attention grabbing videos. In order to educate themselves more about finances, the viewer's then turn to these. These finfluencers also misrepresent their content as educational rather than suggestive.

Typically, the millennials and Gen Z are the targeted audience. These generations are turning their backs to the traditional methods of taking financial advice from family and friends. At the same time, they do not want to pay to get advice from licensed financial professionals. Therefore, the generation's enduring trust of influencers lead a higher percent of young audiences to seek financial advice from TikTok (34%) and YouTube (33%) than a financial advisor (24%)[4]. It is also interesting that these finfluencers have experienced exponential growth thanks to reliable internet connectivity, affordable phones, and affordable data plans.

IV. MARKET MANIPULATION

Market manipulation is conduct designed to deceive investors by controlling or artificially affecting the price of securities. Manipulation is illegal in most cases, but it can be difficult for regulators and other authorities to detect and prove.[5]

It may involve factually false statements as well, but it always seeks to influence prices in order to mislead other market participants.[6]
The techniques of market manipulation used in today's world have transcended the regulations that were previously in place. People have been able to commit investment fraud with the assistance of a variety of legal loopholes as well as modern technologies

MARKET MANIPULATION TECHNIQUES

a. Insider Trading

Insider trading is a sort of market manipulation that is prohibited and takes place when someone with a financial stake in a company uses non-public information obtained from that company to make trading decisions. This is confidential information that may have a significant bearing on an investor's choice on whether or not to purchase or dispose of the security. Regulation 2(ha) of the Insider Trading Regulation defines price sensitive information. According to this definition, price sensitive information refers to any information that relates directly or indirectly to a company and that, if released, is likely to materially affect the price of securities of the firm.

Insider trading has been prohibited under section 15G of the Security Exchange Board of India Act, 1992[7]. The penalty for the same has been provided in it. An insider could be fined anywhere from 10 lakh to 25 crore rupees or three times the amount of profit gained by a trader employing this strategy, depending on what SEBI decides is appropriate. The regulations only apply in listed entities.

The Justice Sodhi Committee was set up in 2013 by SEBI. The primary objective of the committee was to recommend a better legal framework for tackling the issue of insider trading in India. The committee came up with regulations that could be understood easily and were based on fundamental ideas. In addition, the Committee has recommended that each regulation provision be supported by a note on the legislative intent behind the rule[8]. Brett Kennedy, in 2017 was arrested and fined on account of insider trading related to Amazon. He released insider information to his friend about the first quarter earnings before the

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[4] NBC UNIVERSAL, https://together.nbcuni.com/wp-content/uploads/sites/3/2023/03/Rise-of-the-Finfluencer-.pdf (last visited Aug. 1, 2023).

[5] U.S. SECURITIES AND EXCHANGE COMMISSION, https://www.sec.gov/files/Market%20Manipulations%20and%20Case%20Studies.pdf (last visited July 10, 2023).

[6] Street Authority, *5 Market Manipulation Tactics and How to avoid them*, NASDAQ (April 11, 2018, 3:30 AM) https://www.nasdaq.com/articles/5-market-manipulation-tactics-and-how-avoid-them-2018-04-11.

[7] Securities and Exchange Board of India Act, 1992, No. 15, Acts of Parliament, 1992

[8] SEBI, *Justice Sodhi Committee on Insider Trading Regulations submits report to SEBI* (Aug. 1, 2023, 2:29 PM) https://www.sebi.gov.in/media/press-releases/dec-2013/justice-sodhi-committee-on-insider-trading-regulations-submits-report-to-sebi_25863.html.

official release. He was paid commission by his friend who earned major profit due to this information. [9]

b. Pump and Dump

The Pump and Dump market manipulative tactic is one of the investment frauds that is often being done by Finfluencers behind the doors. This tactic involves a company with small market capitalisation. The news report about this companies future endeavours are promised publicly without official statement and registration. This news report is then spread like rumours by finfluencers. These news pieces make the companies share a 'Hot stock' in the market. The finfluencers try to urge their viewers or followers to buy these shares before the price goes up. The real reward for the fraudster comes when unsuspecting investor starts buying shares according to his advice, pumping up the price till the stock reaches its peak. Then fraudster stops promoting it and starts offloading his shares to earn the maximum profit. Due to this price plummets, the innocent investor is trapped with loss making shares.[10]

The SEBI has cracked down some cases against these finfluencer artists. The market regulator in March, 2023 barred more than 55 entities from trading using this tactic through social media channel like YouTube.[11]

The Pump and dump is not new for the market, SEC has been sweeping cases like these since 2001.[12] They even highlighted that social media is not the only medium the artists used, artists relied upon E-mail, Internet Message boards, websites highlighting insufficient finances of the company to mislead investors, etc.

The model of this scheme could be busted if signs such as these are blinked:

- Companies Finances: Investors before investing should always lookout for finances of those companies which have become highly volatile on market. Most of the time the finances of these companies try to showcase short term picture, while the long term statements are hidden from public eye. Finfluencers help them by painting the incomplete finances in front of their followers. This results into pumping of share prices. At the peak, the share is then dumped. So, there is a high possibility that a red flag is shown in finances.

- Unregistered Mergers: The market always lookout on the opportunities of merger as a green signal to buy shares of those companies getting merge in bulk. The news of an unregistered merger in the market allows finfluencer an opportunity to pump the shares. Later, the shares of these companies are dumped at their peak and the mergers are called-off. Here, do check if the merger is announced through some official statement instead of just rumours.

- High Volatility in Price of share: If the price of shares of one company are rising, and there reason behind its rise. Its red flag and market is about to correct itself. The finfluencers might provoke you to pump those shares even more before dumping them. They will try to dupe investors by saying "STRONG BUY" and "Could make a fortune".

The market regulator, SEBI, has recently in the matter of stock recommendation through the channel of social media has found Noticees in volition of several regulations including section 12A(a), 12A(b), 12A(c) of Securities and Exchange Board of India Act, 1992 and Regulations 3(a),3(b),3(c) and 3(d), 4(1) and 4(2)(a),4(2)(d),4(2)(e),4(2)(k),4(2)(o) and 4(2)(r) of

[9] U.S. Attorney's office, *Formal amazon financial analyst sentenced to prison for insider trading* (Aug. 1, 2023, 11:00 AM), https://www.justice.gov/usao-wdwa/pr/former-amazon-financial-analyst-sentenced-prison-insider-trading.

[10] U.S. SECURITIES AND EXCHANGE COMMISSION, https://www.sec.gov/rss/your_money/pump_and_dump.htm (last visited Aug. 01, 2023).

[11] Rajiv Dogra, *SEBI Cracks the Whip on Pump-and-Dump Schemes on Social Media Platform*, CLEARTAX CHRONICLES (Mar. 3, 2023, 10:42 PM), https://news.cleartax.in/sebi-cracks-the-whip-on-pump-and-dump-schemes-on-social-media-platform/9025/.

[12] John Reed Stark, *EnforceNet Redux: A Retrospective of the SEC's Internet Program Four Years After Its Genesis*, vol. 57, no. 1, *The Business Lawyer*, 2001, pp. 105–25. *JSTOR*, http://www.jstor.org/stable/40688055.

SEBI (Prohibition of Unfair Trade Practices relating to Securities Market) Regulations, 2003.[13] SEBI ordered the fine twice the amount they made in profits.

c. Poop and Scoop

The Poop and Scoop investment fraud scheme that is also being done by Finfluencers. This tactic involves reducing the price of a company with small market capitalisation for short-selling. The news about these companies makes false comment rumours are spread by finfluencers. These news pieces make the companies share a 'Selling stock' in the market. Now, first the finfluencers short-sell these stocks. The finfluencers try to urge their viewers or followers to sell these shares before the price goes down. The real reward for the fraudster comes when unsuspecting investor starts selling shares according to his advice, shorting up the price till the stock reaches its low. Then price of the shares rise. Now you see it uses the same technique like pump and dump with one difference and that is short-sell.

d. Fake News

Companies or certain individuals often spread fake news about any specific company or the entire market to manipulate investors in their favour. This leaves a few with massive profits whereas causes major losses amongst the investors. This is the most common technique used by finfluencers. They promote certain company shares for commission and fool the investors.

SEBI prohibited the actor Arshad Warsi and his wife from entering the securities market due to allegations that they manipulated stock prices by utilising YouTube channels. On the channel, they were distributing misleading material. They made over $5 million by manipulating through spread of false news[14].

V. GLOBAL OUTLOOK

These market manipulation techniques do not only cause a problem in India but all around the world. Similar trends have been observed. Some nations follow a stricter policy of tolerance against these techniques and finfluencers. Few examples from across nations have been mentioned below.

The Securities and finance commission (SFC), the market regulator of Hong Kong, has been putting its best efforts to tackle investment frauds and scams on online platforms, market manipulation techniques used by finfluencers. It has been putting a lot of resources to curb the problem of poop and scoop over the past few years. In investigations it has been collaborating with the Police department and the Hong Kong Independent commission against corruption in pursuance to these types of cases.[15] For regulatory compliance, the 2019 *SFC Guideline on Online Distribution and Advisory Platforms* were also provided to regulate digital advisors.[16]

The Securities and Exchange fee (SEC) assessed a penalty against an American media personality Kim Kardashian for promoting crypto asset securities while receiving a fee. She was fined $1.26 and prohibited from offering any type of investment opportunity for a period of three years. This is considered inappropriate since people would blindly follow what celebrities would suggest and end up losing money.[17]

VI. ADDRESSING THE PROBLEM

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[13] SEBI, https://www.sebi.gov.in/enforcement/orders/apr-2023/final-order-in-the-matter-of-stock-recommendations-using-social-media-channel-telegram_70604.html (last visited Aug 1, 2023).

[14] The Indian Express, https://indianexpress.com/article/business/companies/sebi-ban-sadhna-broadcasts-promoters-arshad-warsi-securities-mkt-8474861/ (last visited Aug 1, 2023).

[15] *Hong Kong regulatory enforcement trends in the digital age*, LEXOLOGY, (Aug 20, 2023, 11:20 AM) https://www.lexology.com/library/detail.aspx?g=1f2bd7be-e4c7-4e10-b09c-a6abb7c4e914.

[16] Akihiro Matsuyama, Tony Wood, *The rising role of social media 'finfluencers'*, DELOITTE (Aug 20, 2023, 12:49 PM) https://www2.deloitte.com/cn/en/blog/financial-advisory-financial-services-blog/2022/the-rising-role-of-social-media-influencers-in-finance.html.

[17] Press Release, SEC, https://www.sec.gov/news/press-release/2022-183 (last visited Aug 20, 2023)

A. Legal Aspect

- The SEBI (Prohibition of fraudulent and unfair trade practices relating to securities market) Regulations, 2003[18]: This Indian security market regulation this engages with the discipline or conduct of market stakeholders. In the interesting turn of events, the above mentioned was amended in 2022. This amendment put the financial influencers on the target of the market regulator. In section 4(2)(k), ***disseminating information or advice through any media, whether physical or digital, which the disseminator knows to be false or misleading in a reckless or careless manner and which is designed to, or likely to influence the decision of investors dealing in securities***[19]. Consequently, Dissemination of misleading information by finfluencers would make them liable under this act. It ensures a level playing field for all the stakeholders of the securities market. In this regulation, the possible loophole for finfluencers is when the third-party (herein third-party would person other follower) asks certain quid pro quo from finfluencer. It becomes difficult for market regulator to establish nexus between them. Therefore, The requirement here to break this loophole by complete restriction on unsolicited influencing advisory on financial market.

B. Executive Action

- Increasing the number of investment advisers: An investment advisor is a professional authorised and registered with the SEBI to provide financial advisory services to clients[20]. These advisers help the investors on an individual basis. Currently in the year 2023, the total number of these registered advisors is 1330[21]. On the other hand, there are more than 11 crore investors across the country. People need to be able to seek guidance from reliable sources so that they do not fall victim to scams and frauds, and SEBI needs to significantly boost the overall number of investors. The reason for the short number of advisors are the crucial exhaustive process a person has to go through. SEBI should assign advisors according to the number of investors in a particular region.

- Increasing the number of research analyst: A research analyst is a person who is accountable for the development or publication of the content of the research report, as well as a person who offers research reports, makes price targets, or offers an opinion concerning public offer with respect to securities listed or to be listed in a stock. Currently the number of research analyst is 941.[22]SEBI should increase the number of research analysts for availability of reliable content available to the public.

C. Investors – what do they can do to avoid investment frauds?[23]

- **Do research and Ask questions**
  The con artist will have one basic goal in mind, and that is to defraud the naive investor who knows the least about the market. Therefore, before acting on the advice of anyone else, investors should do their own research. If a con artist is completely honest about his scheme, he will lose all of his motivation, so it is important that you perform your own independent investigation as well. The questions that one could ask could involve data pertaining to the

[18] Prohibition of Fraudulent and Unfair Trade Practices Regulation, 2003 § Part II Section 3 – sub section (ii), Security and Exchange Board of India, 2003 (India).
[19] Prohibition of Fraudulent and Unfair Trade Practices Regulation, 2003 § 4(2)(k), Security and Exchange Board of India, 2003 (India).
[20] Security and Exchange Board of India (Investment Advisor) Regulations, 2013 § 3, No. 4, The Gazette of India
[21] SEBI, https://www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognisedFpi=yes&intmId=13 (last visited Aug. 1, 2023).
[22] SEBI, https://www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognisedFpi=yes&intmId=14 (last visited Aug. 1, 2023).
[23] US Securities and Exchange Commission, Don't fall for an Investment Scam- Investor Alert, SEC (Oct. 19, 2023) https://www.sec.gov/oiea/investor-alerts-and-bulletins/ia_dontfallscam

performance of the stock and how it correlates with the financial statement of the firm, its product, and so on.

- **Choose trustworthy broker and advisers**
  It is essential to investigate the level of experience possessed by the individual promoting the investment. You should check the individual's background using the SEBI web database to see whether or not the individual possesses a licence. Even if you have a social connection with the person, you should still carry out this step.

- **Be wary of Pump and Dump Schemes**
  The prudent investor will always look for the most recent financial statement before making an investment. This will help them avoid falling victim to dumping.

- **Avoid Insider Trading Information**
  It's possible that an unasked-for piece of information regarding a company's plans for the future will fall into your lap. If it turns out to be a rumour, you should not invest. It might make it possible for authorities to convict you of insider trading and penalise you for it. This may potentially result in the permanent revocation of your licence to engage in trading. Every investor shares in the responsibility of ensuring that the market remains robust. They should also make an effort to safeguard themselves against falling for a con.

- **Careful with Common Persuasion Technique of finfluencers**
  At the time when someone shouts into your ear "100% profit guaranteed", "BREAKOUT TIME FOR THE STOCK", "Huge upside almost no risk" and many such things, become deaf. The Investor should always lookout for red flags or risk involved in the investment. Beware about the Halo effect. Due to this effect you trust the conman since he convince you a lot. Credibility could be faked. Investor should always check the background of the finfluencer.

Some of the major manipulative tactics have been mentioned above in this paper. Investors should make decisions on behalf trained market experts if they choose for market advisor. Being aware in securities market is very important.

V. CONCLUSION

In Conclusion, this study examined the role of financial influencing and their impact on the investor and financial markets. Through an analysis of available research and recent orders passed by SEBI, we have gained insights on how investors were attacked through manipulation by finfluencers. It is established here that risking investments on advices given by these influencers requires caution. There have been some irregularities in the trading due to finfluencers, which needs authoritative attention by the market regulator. The explanation of the popular market manipulative techniques used by finfluencers including pump and dump, fake news, etc has been provided for better understanding their moves. As security market is volatile in nature there are some expectations from regulators to protect investors from unfair trade practices. Therefore, it is expected from SEBI to regulate the financial market by handcrafting the current framework which maintains market stability, investors' confidence and provide protection from unsolicited financial advices from finfluencers. Thus, the future of security market is in jeopardy until these activities goes unnoticed. So, avoiding excessive speculation, scams and frauds of these sought would strengthen our economy.

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