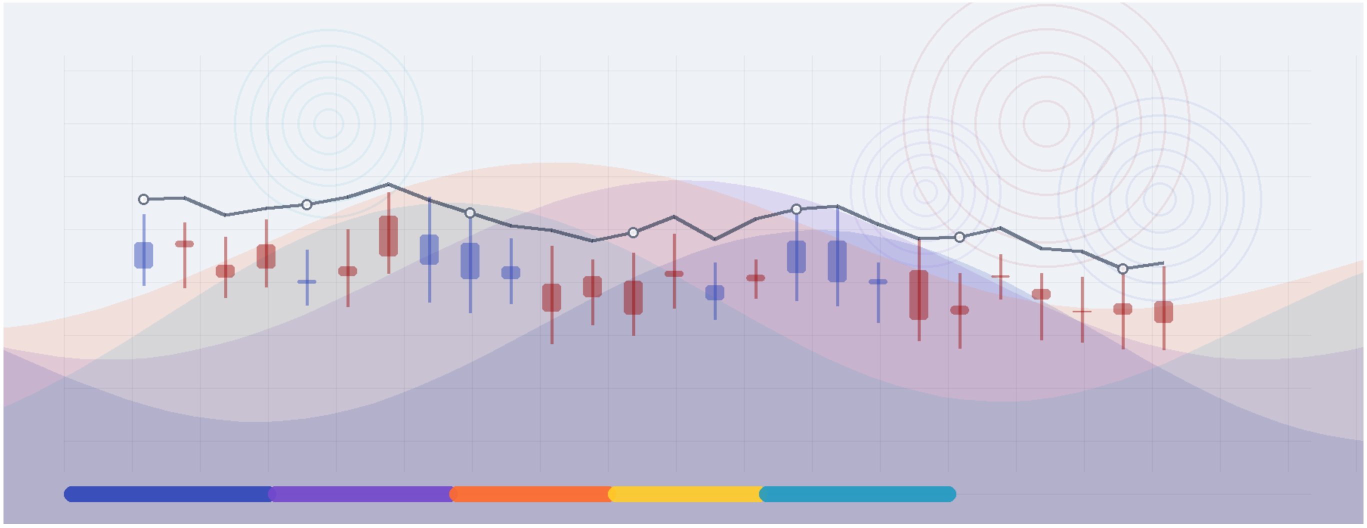

LEGAL GUIDE

Insider trading: Investigation, Prosecution &Consequences

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EXECUTIVE SNAPSHOT

Insider trading is a recognized form of securities-related offense, wherein the purchase or sale of securities is carried out on the basis of unpublished price-sensitive information ("UPSI"). Such conduct is prohibited as it creates an unfair advantage, distorts market integrity, and undermines investor confidence.

INSIDER TRADING **Section 91** Insider trading under the Securities Act	**PENALTY** **Section 101** Fine, imprisonment, or both
INVESTIGATION HANDOFF **30 days** Forwarding Investigation to Police Headquarter	**FILING** **35 days** Charge sheet before the competent District Court

KEY PROCESS STAGES

1 **Initial Investigation**	**2** **Power Conferred to Investigation Officer**	**3** **Forwarding Investigation to Police Headquarter**	**4** **Investigation by Investigating Authority**	**5** **Filing and Nature of the Case**	**6** **Detention & Suspension**	**7** **Appeal**

MONEY LAUNDERING ASPECT

1 **Investigation Authority**	**2** **Government Attorney's Office**	**3** **Court Authority**	**4** **Recommendation for the Prosecution**

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Insider trading is a recognized form of securities-related offense, wherein the purchase or sale of securities is carried out on the basis of unpublished price-sensitive information ("UPSI"). Such conduct is prohibited as it creates an unfair advantage, distorts market integrity, and undermines investor confidence. Accordingly, insider trading is deemed as an illegal and punishable act under the Securities Act, 2063 (2006) ("Securities Act"). This Legal Guide examines legal provisions applicable to offence related to insider trading ranging from investigation to prosecution to adjudication.

A. Insider Trading under the Securities Act

1. Section 91 of the Securities Act defines insider trading as "If any person deals in securities or causes any other person to deal in securities on the basis of any insider information or notice that are unpublished or communicates any information or notice known to such a person in the course of the discharge of his or her duties in manner likely to affect the price of securities such a person shall be deemed to have been committed an insider trading in securities."

2. Section 91(2) of the Securities Act provides that the mere occurrence of insider trading does not, in itself, render a completed transaction void or invalid. Nevertheless, the individual responsible for such conduct remains subject to legal liability and is liable to punishment, as discussed below.

B. Insider Information

3. For the purposes of this definition, the term "insider information" refers to any specific information or notice relating to a body corporate issuing securities that has not been made public and is capable of materially affecting the price of such securities if disclosed. This is commonly referred to as unpublished price-sensitive information (UPSI).

4. Similarly, Section 93 of the Securities Act delineates the circumstances under which information is deemed to be publicly disclosed. The provision clarifies that information shall be considered public where it has been duly published for investors and professional advisors in accordance with securities market regulations, incorporated in records that are legally accessible to the public, made available on the trading floor or within the market for access by prospective traders, or otherwise disseminated in a manner that ensures general public accessibility. Conversely, information that does not meet these criteria may be treated as UPSI.

C. Insiders

5. For the purposes of insider trading, the following categories of persons are regarded as insiders on the basis that they are in a position to access UPSI or other insider information:

- **i.** ***Directors, Employees, or Shareholders:*** Any director, employee, or shareholder capable of obtaining unpublished information relating to the company by virtue of their position or relationship with the company.
- **ii.** ***Professional Service Providers:*** Any person capable of obtaining insider information while providing professional services to the organized institution.
- **iii.** ***Connected Persons:*** Any person who directly or indirectly obtains insider information through contact, relation or association with persons mentioned above.

D. Requirements for Establishing Insider Trading

6. To establish insider trading, the following conditions must generally be satisfied:

- **a.** the person must have access to UPSI; and
- **b.** the securities transaction must have been carried out based on such UPSI.

7. Mere possession of information alone may not be sufficient unless the transaction is linked to the information.

E. Penalties and Compensation under the Securities Act

8. Where it is established that an insider has committed in insider trading by conducting transactions on the basis of UPSI, the Securities Act provides the following consequences:

S.N.	Offence	Consequences
1.	**Section 101: Penalty**	Confiscation: Amount involved in the offence (बिगो), Fine: Equivalent to the amount involved in the offence or Imprisonment: For up to 1 (one) year, or both.
2.	**Section 105: Compensation**	Any person suffering loss due to insider trading may recover damages and compensation from the offender.
3.	**Section 108: Disqualification to be a Director or General Manager**	If a director, general manager or any other person holding the equivalent office there to is convicted and punished with the punishment referred to in Section 101, such a person shall be disqualified for becoming a director, general manager or an office equivalent thereto in any public limited company or a body or a period up to 10 (ten) years from the date of such punishment.

Table no. 1: Consequences of Insider Trading

Note: However, with regard to the consequences of insider trading, Section 91(2) provides that the transaction remains valid. It states: "Any transaction already carried out shall not be deemed to be affected merely on the ground that insider trading has been committed." The underlying rationale appears to be the protection of the rights of an innocent buyer or seller (another party of transaction) who is not involved in the insider trading.

F. Investigation and Adjudication Framework

9. The Securities Act provides the following framework from Section 102 to Section 106 for the investigation and adjudication of insider trading cases as follows:

S.N.	Process	Illustration
1.	**Initial Investigation[1]**	The Chairman of the Securities Board will appoint an officer from the Board to conduct an investigation. Such investigation is initiated on the following grounds: a) Upon receipt of a complaint filed by any person before the Board or Investigating Authority i.e., Police Headquarter; or b) On the basis of any information received by the Board through any other means, where the Board deems it appropriate to commence an investigation.
2.	**Power Conferred to Investigation Officer**	The investigating officer may, during the preliminary examination of the complaint, inquire with the person or institution related to the offence and may also request necessary documents, details, and records.
3.	**Forwarding Investigation to Police Headquarter**	Further, if it appears from the documents and evidence obtained during the inquiry that an offence has been committed, the complaint, along with the collected details, evidence, and case file, shall be forwarded to the Police Headquarters within thirty (30) days for investigation. While forwarding such complaint and case file for investigation, the name of an officer from the Board may also be specified to coordinate and assist in the investigation on behalf of the Board.
4.	**Investigation by Investigating Authority**	Upon receipt of the case file as stated above, the Police Headquarter will appoint a police officer of at least the rank of Inspector as the investigating officer. After completion of the investigation, the investigating officer shall prepare an investigation report and submit it to the Office of District Government Attorney.

S.N.	Process	Illustration
5.	**Filing and Nature of the Case**	Upon receipt of such report, the Government Attorney shall determine whether to initiate prosecution. If it is decided to proceed with the case, the charge sheet shall be filed before the competent District Court within thirty-five (35) days from the completion of the investigation. The Case shall be state cases to which Government of Nepal shall be a plaintiff.
6.	**Detention & Suspension**	If, in conducting investigation, there is a reasonable ground to believe that any person against whom action is being taken on the accusation of an offense referred to in this Act may abscond or it appears that there is any loss of or damage to any assets, the Board may require such a person to furnish necessary bail or guarantee of asset and may hold such a person in custody in the event of failure to furnish such bail or guarantee. If there is a reasonable ground that any person against whom action is being taken on the accusation of an offense may temper with or destroy any evidence that can be produced against such a person or may obstruct or hinder the investigation of the case if such a person continues to hold office, the Board may write to the concerned body to suspend such a person.[2]
7.	**Appeal**	An appeal against the decision may be filed before the competent High Court.

Table no. 2: Investigation and Proceeding of Insider Trading

G. Investigation and Court Proceeding: Money Laundry Aspect

10. Pursuant to the recent amendment introduced through the Money Laundering (Third Amendment) Ordinance, 2083 dated 2083/01/18 B.S. (May 01, 2026) (the "Ordinance"),[3] the authority relating to the investigation of complaints involving money laundering associated with insider trading has been substantially amended. The Ordinance now has been enacted as a law.

11. Before the amendment, Section 13(1)(b) of the Money Laundering Prevention Act, 2064 (2007) stated that cases of money laundering linked to insider trading would be investigated according to the procedure outlined in Table No. 2 by the Securities Board of Nepal. After the amendment, if a complaint is filed with the Department of Money Laundering Investigation regarding money laundering connected to insider trading, the Department will proceed with the investigation.

12. Accordingly, following the amendment, the investigation and prosecution of insider trading cases involving money laundering will now proceed as follows:

S.N.	Process	Description
1.	***Investigation Authority***	Pursuant to the amendment, information and matters relating to money laundering associated with insider trading cases shall henceforth be investigated by the Department of Money Laundering Investigation.
2.	***Government Attorney's Office***	In cases investigated in this manner, the Department will forward the case file to the Government Attorney's Office designated by the Government of Nepal through a notification published in the Nepal Gazette. It is likely that the Government may designate the Special Government Attorney's Office for this purpose.
3.	***Court Authority***	Upon completion of such investigation done by the Department, the case will be initiated before the Special Court.
4.	***Recommendation for the Prosecution***	Pursuant to the amendment, during the course of investigation conducted by the Department, it is found that no prosecution has been initiated in relation to any associated or predicate offense (i.e. Insider Trading), the Department may nevertheless propose prosecution in respect of such related or associated offense along with money laundering.

13. Notwithstanding the above amendment, the investigation and enforcement mechanism prescribed under the Securities Act, as discussed in Table No. 2 above, continues to remain in force. Accordingly, it appears that the Board retains the authority to investigate insider trading cases and to proceed in accordance with the procedures prescribed under the Securities Act where the complaint is filed before the Board.

14. However, where a complaint relating to money laundering associated with insider trading is filed before the Department of Money Laundering Investigation, the investigation shall be conducted by the Department in accordance with the amended provisions of the Money Laundering Prevention Act. Furthermore, it appears that the Department may also recommend prosecution in relation to the insider trading offense.

NOTES

[1] *First an Initial stage of investigation within the Board*

[2] The following actions may be taken by the Board during the course of the investigation.

[3] Please refer to the link: https://infinitynp.com/insights/money-laundering-prevention-third-amenordinance-2083-2026-nepal

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Additional Readings

Reading	Description
Income Tax in Nepal: Comprehensive Legal Guide 2025 (Rates, Rules and Compliance) https://infinitynp.com/insights/income-tax-guide-2025-rates-rules-nepal	Complete 2025 guide to income tax in Nepal: Updated rates & slabs for individuals/companies, deductions, withholding rules, incentives, compliance, and recent Finance Act changes.