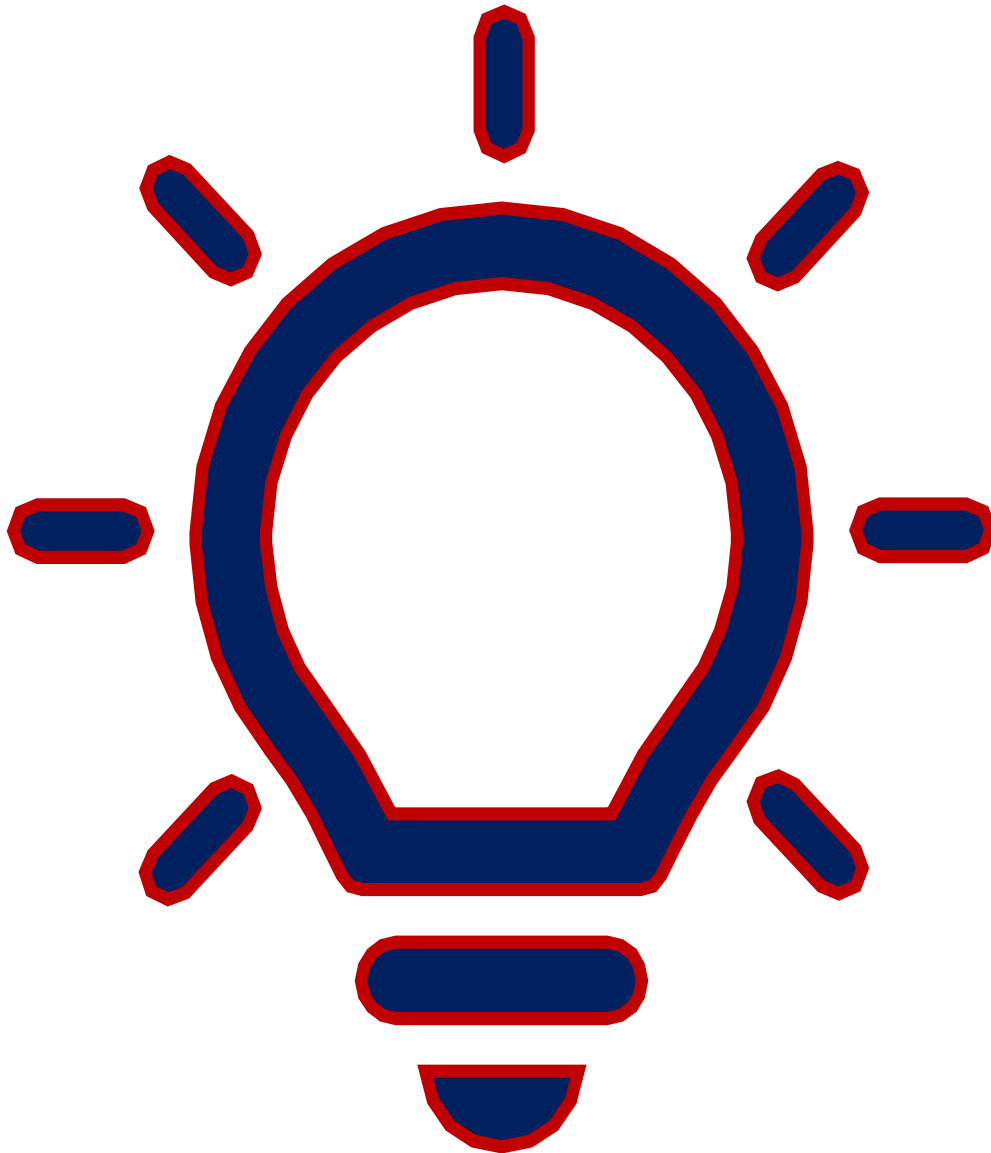




Freezing of PAN of Designated Persons - under SEBI (PIT) Regulations.

● Concept of – PAN Freeze



The concept of automatic freezing of the PAN of a Designated Person involves:

Implementing a system where trading activities by Designated Persons of the Company are automatically restricted under certain predefined circumstances, for a predefined period, without the need for manual intervention or discretion.



SEBI's Rationale/Objective behind – PAN Freeze Circular



To enhance the **ease of doing business** ;



Prevent unintentional non-compliance with the provisions of the PIT Regulations by Designated Persons;



Investors and the public can have **increased confidence** that insiders are not benefiting unfairly from their privileged access to information;



Reduced Compliance burden;

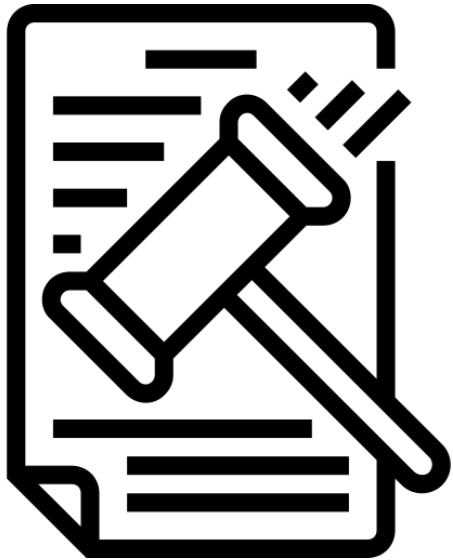


To help **maintain the integrity of the financial markets**, fostering trust and fairness among all participants.



Case Law

Trade in Trading Window Closure – In the matter of Kushal Tradelink Ltd.



Four Employees of the company notified as the Designated Persons had traded in the Securities of the Company. Noticee 1 & 2 entered into trades during TWC and these trades also amounted to Contra Trade.

The AO did not find merit in submissions of Noticee 1 that he suffered loss from such trade, which corroborates the fact that he does not have access UPSI that influence for trading in the securities.

Noticee 2 who was an Accounts contended that she did not have access to UPSI as scope of her work was restricted to compliance of direct tax with regard to TDS compliance and indirect tax laws.

The submission of the Noticee 3 that she has actually incurred a loss on such trade and submission of the Noticee 4 that she earned a profit of Rs 348/- was insignificant was given no merit by SEBI.

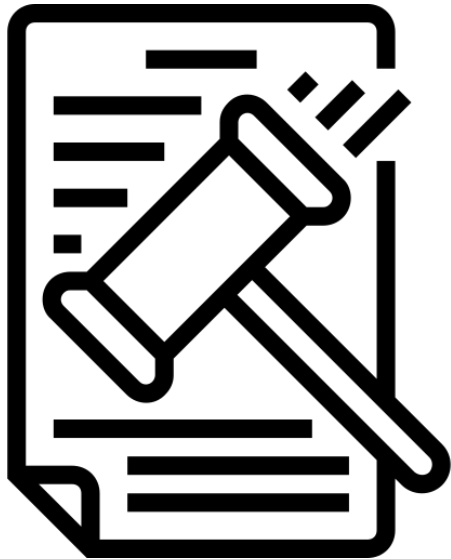
imposed a Penalty of Rs 2 Lakh on each.

imposed a Penalty of Rs 1 Lakh on each.



● Case law

Trade in Trading Window Closure – In the matter of NDTV Ltd. & Adlabs Ltd.



In the above-mentioned cases, **trading was done post-disclosure of UPSI to the stock exchanges** but within the period of 24 hours from disclosure, and it was considered as a violation of the Code of Conduct as the trading window was not yet open.

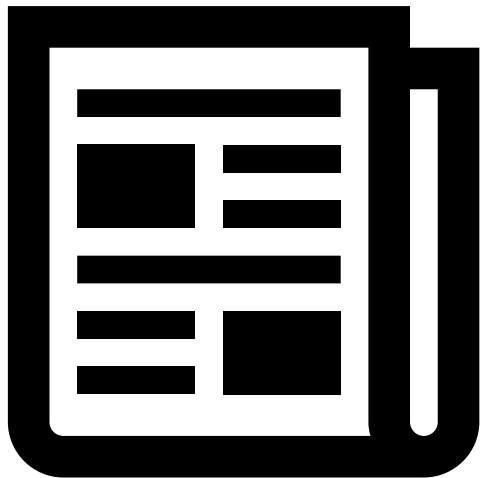
So, in situations **where UPSI becoming generally available is followed by non-trading days**, then the market does not get sufficient time to assimilate the information, and price discovery does not happen effectively.

Hence, in such scenarios, it is recommended that the compliance officer can keep the trading window closed for 2 trading days (equivalent to 48 hours after the UPSI becomes generally available).

For e.g.: If a UPSI, say financial results are disclosed to stock exchanges on Friday, after market hours, then the trading window is recommended to be opened on Wednesday, after giving the market 2 trading days to assimilate, instead of opening it on Monday only (after completion of actual 48 hours).



● The journey so far.... **Framework for PAN Freezing**



SEBI vide circular dated **August 05, 2022.**

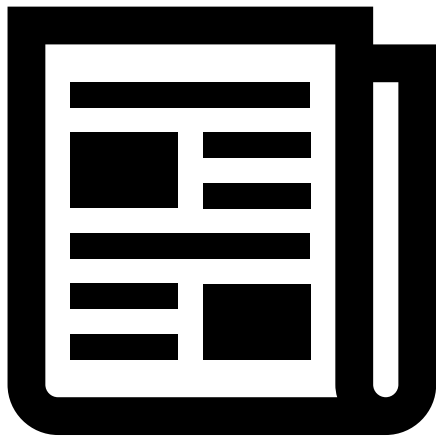


- Framework for restricting trading by Designated Persons **at the time of declaration of financial results;**
- in those **listed companies** that are or were part of benchmark indices i.e. **SENSEX and NIFTY 50.**

By freezing their **PAN at the Company's security** level, during the **Trading Window Closure Period.**



● The journey so far.... **Framework for PAN Freezing**



Further, SEBI vide circular dated **July 19, 2023.**

- **Outlined the timeline** for the phased implementation of the said framework on the **listed companies and the Company getting listed.**

To provide further clarity on these SEBI circulars, **the NSE and BSE** have issued their own circulars in alignment with the SEBI directives.



Timeline for Phase wise implementation of the framework for restricting trading by Designated Persons (“DPs”) by freezing PAN at security level.

Sr.No.	Companies to be covered	PAN freeze start date
1	Listed companies that are part of benchmark Indices i.e. NIFTY 50 and SENSEX	Already applicable as on date
2	Top 1,000 companies in terms of BSE Market Capitalization as of June 30, 2023 (excluding companies part of benchmark indices)	October 1, 2023
3	Next 1,000 companies in terms of BSE Market Capitalization as of June 30, 2023	January 1, 2024
4	Remaining companies listed on BSE, NSE & MSEI	April 1, 2024
5	Companies getting listed on Stock Exchanges post issuance of this circular	1 st day of the second quarter from the quarter in which the company gets listed

Illustration: For a company getting listed during January 01 to March 31, 2023, PAN of DPs should be frozen at security level as per prescribed framework latest from July 01, 2023.



● Circulars Applicability



Securities Wise:

- **Equity shares, and**
- **Equity Derivatives Contracts (i.e. Futures and Options)**
- **NSE & BSE vide circular dated June 28, 2023, have mentioned the securities convertible into equity shares.**

Transaction Wise:

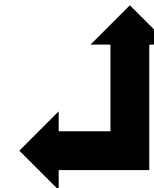
- **On-market transactions,**
- **Off-market transfers,**
- **Creation of pledge**



● Process Flow Chart

Firstly, the **Designated Depository** provides access to **listed companies on a Portal/Platform**.

Auto-populate details of the Designated Person obtained for the purpose of **System Driven Disclosure (SDD)**.



Note: Listed company to update/confirm:

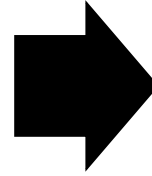
- a) PAN of DPs to be frozen;
- b) ISIN and
- c) “Start and End Date” of trading window closure period.



● Process Flow Chart – **Timeline**

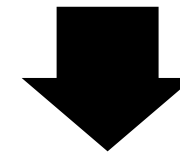
The listed Company shall select or de-select PAN of DPs at least 2 trading days prior to the trading window closure start date.

(T-2 trading days)

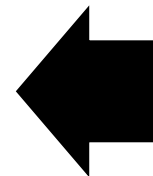


The Designated Depository shall provide relevant data to the stock exchange and other depository by the next trading day.

(T-1 trading day)



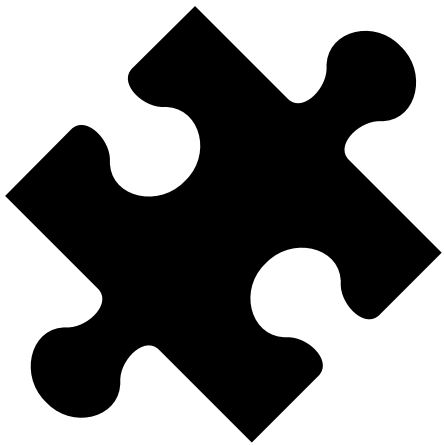
Any addition/ exemption of/to DP during the trading window closure period shall be effected within two trading days of intimation by companies.



T means Trading Window Closure Start Date.



● **Challenges yet to be – Answered**

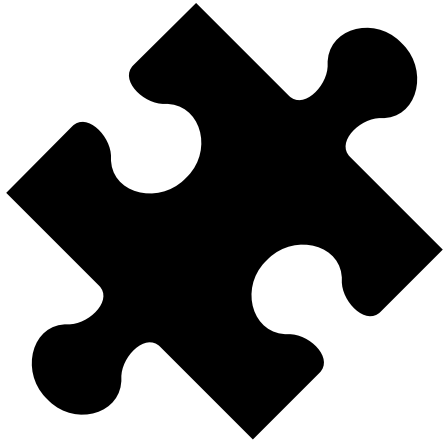


The portal will auto-populate details of the Designated Person (PAN and Name from System-driven Disclosure (SDD), to implement the PAN freezing.

However, if the listed companies are not complying with the System Driven Disclosure, then how the details will auto-populate for PAN freezing?



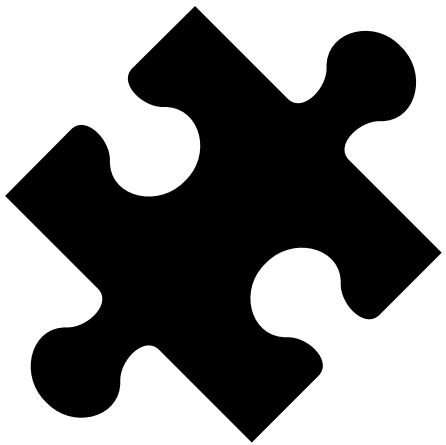
● **Challenges yet to be – Answered**



PAN of the immediate relatives and spouse are not yet covered. However, trading during the Trading Window Closure is also prohibited for them.



● **Challenges yet to be – Answered**



Designated Persons also need to take care of the trading of Firms/HUF/Trust wherein such Designated Persons are connected to or have significant influence.

As the PAN of such entities is not frozen, then they are still being monitored offline.



**Compliance cost nothing, but Non-
Compliance cost everything.**

Think Diligently.



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