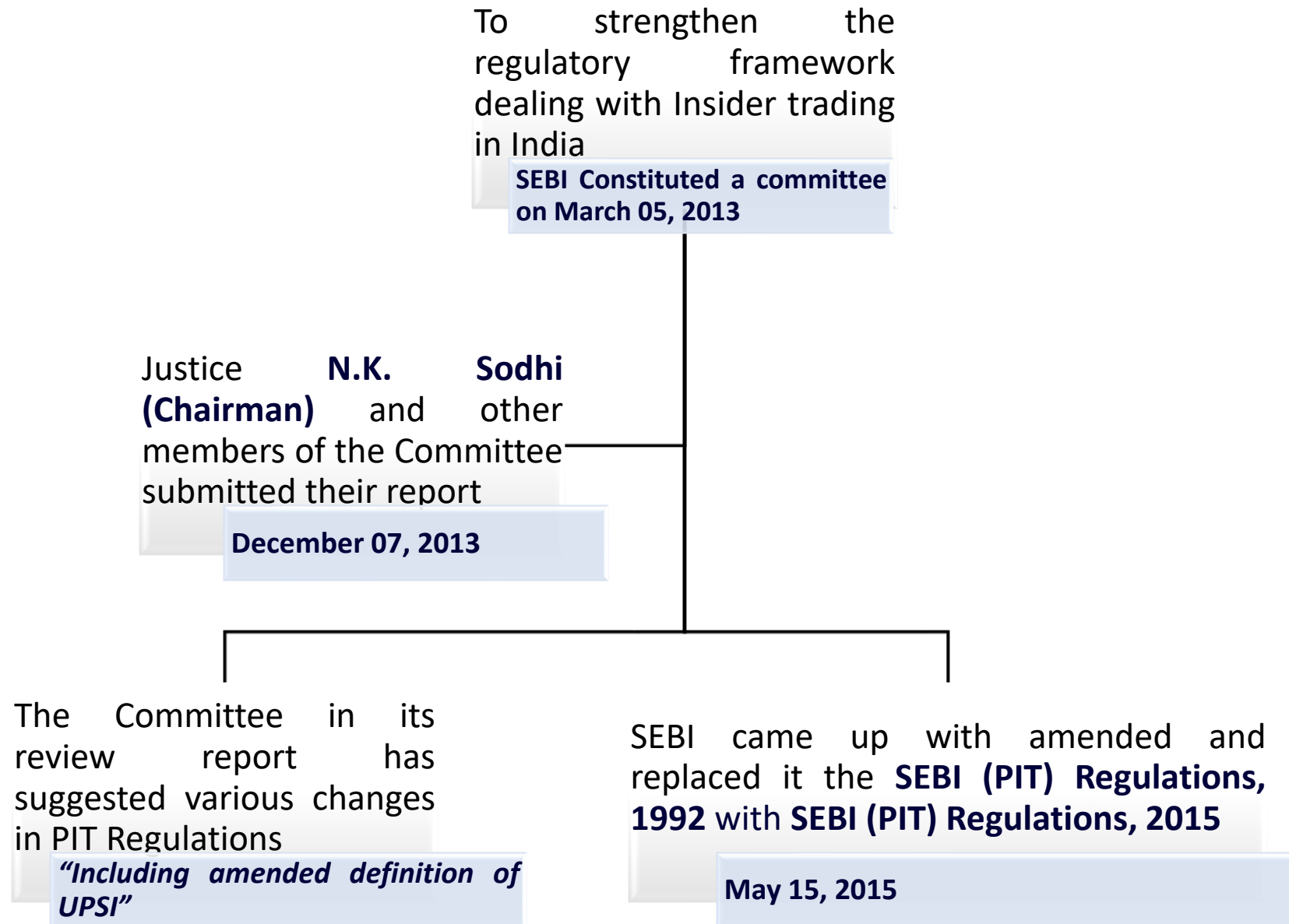


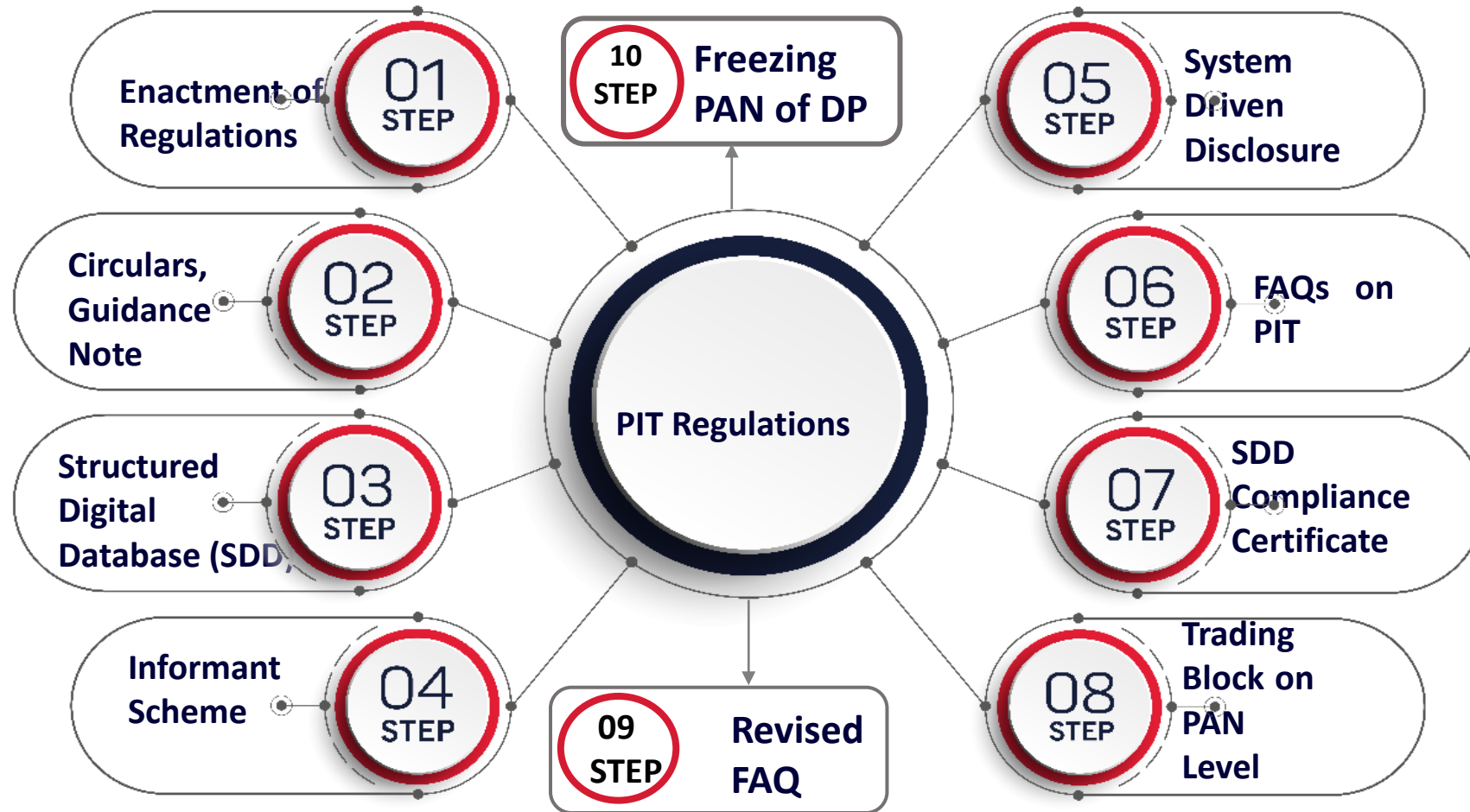


Trading by Designated Persons - **Do's** and **Don'ts** under SEBI (PIT) Regulations.

Evolution of UPSI – New SEBI (PIT) Regulations, 2015



● The journey so far.... From May 2015 to July 2023



● The intent of regulating Insider Trading

- **SEBI** is the market's watchdog that maintains an **eye and keeps a check on malpractices** by investors in the trading of securities.
- Intent of PIT Regulation is to ensure the **integrity** of the securities market and to maintain **the level playing** field, where investors trade.
- No one should be able to beat the market by **the edge of information.**
- The PIT Regulation prohibits insiders from using inside information in securities transaction decisions and prevents the investor's temptation to outperform the market by benefitting themselves from the **privileged information received.**



• Insider Trading... **In a Glance**

Insider Trading means:

- **Trading in the Securities** of the Company;
- **On the basis of** Unpublished Price Sensitive Information about the company (**UPSI**);
- **By the person** who has UPSI.



● Insider Trading... **A White-Collar Crime**

The term Insider Trading is quite popular and has

- attracted significant attention of late with the recent amendments in the SEBI Insider Trading Laws

Insider Trading is a white-collar crime that results from

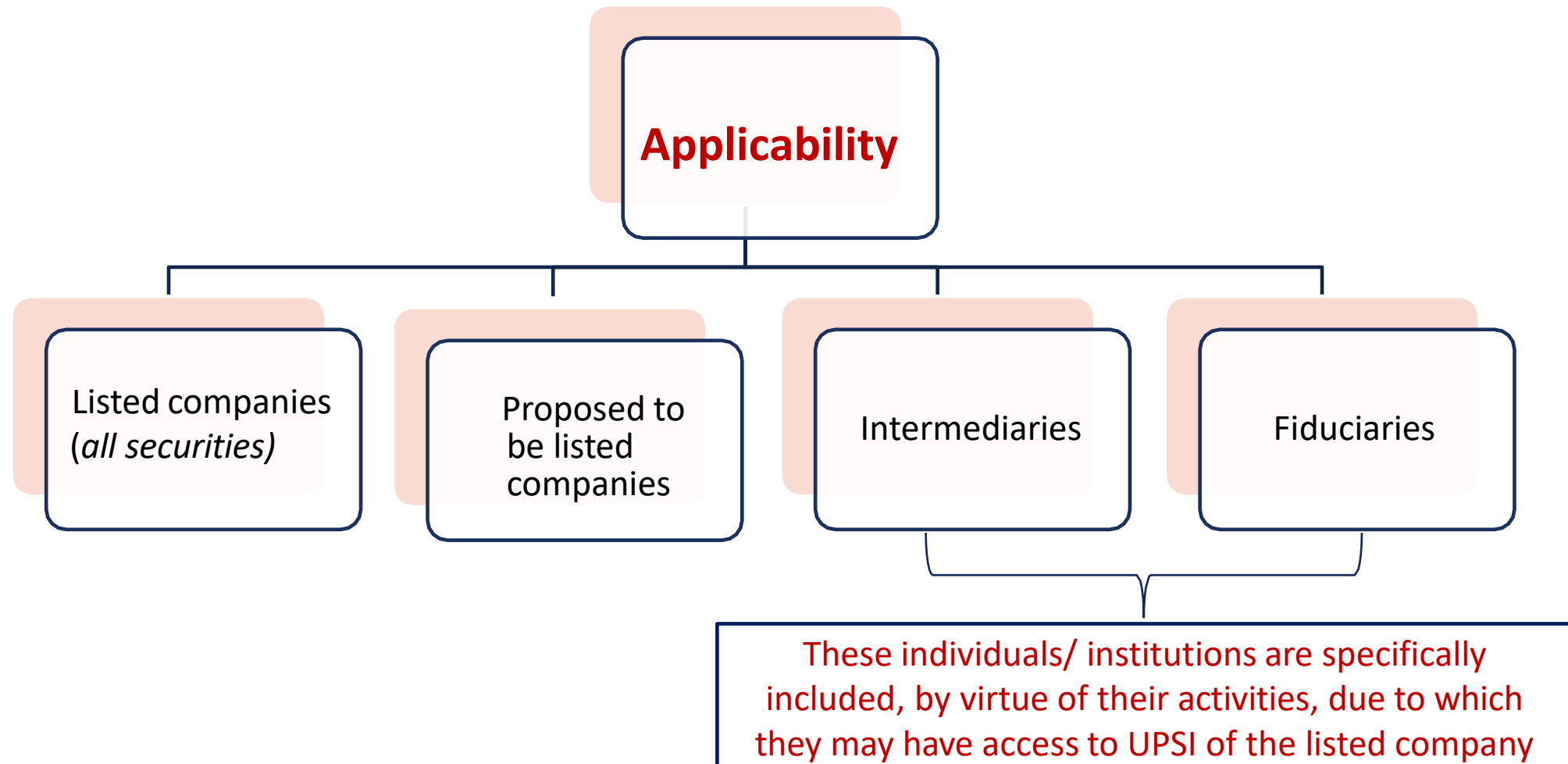
- trading in securities of a Listed Company
- by any person - who may or may not be managing the affairs of the company
- while in possession of price-sensitive information of such Company

It is considered as a serious offence as it

- breaches the underlying trust & confidence among stakeholders.



● Organizations that handle the UPSI of a Listed Company



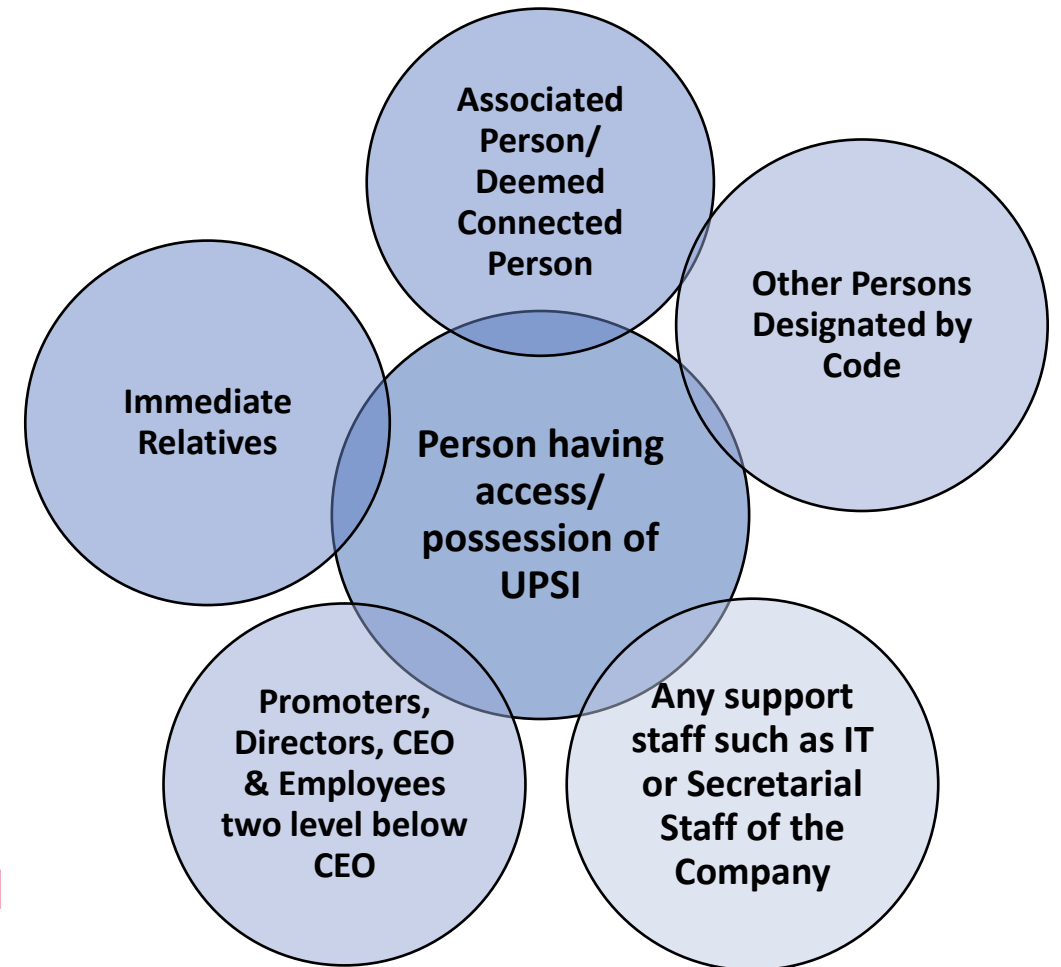
Insider Trading... **Who is Insider?**

Insider means :

- a connected person; or
- **any person** who is in Possession of or having Access to Unpublished Price Sensitive Information (“**UPSI**”)

By virtue of role/ designation or reasonable access to UPSI:

- Promoters
- Board of Directors
- Key Management Personnel
- Employees of the Company & its material subsidiaries (having access to UPSI)
- Outsiders [Friends, Auditors, etc. (having access to UPSI)]
- Immediate Relatives (of the above persons)



Insider Trading... **What is Trading ?**

➤ **Trading** means and includes:

- ✓ Subscribing (FPO, Rights Issue)
- ✓ Buying
- ✓ Selling
- ✓ Dealing (Gift, Participation in Open offer/ Buyback, Derivatives trade, etc.)
- ✓ Agreeing to subscribe, buy, sell, deal
- ✓ Pledging of shares (any encumbrance)



Insider – Not to Trade.....

No insider should trade **in securities** that are listed or proposed to be listed on a stock exchange **when in possession of unpublished price-sensitive information.**



Understanding the Designated Persons- Code of Conduct

It is **mandatory** for the listed company to establish a Code of Conduct to effectively **Regulate, Monitor, and Report** trading activities carried out by **Designated Persons** and their immediate relatives.



Designated Person ...

Persons regulated under current provisions

Regulates following;

- Promoters
- Directors
- **Designated Persons (includes employees)**

Who is a Designated Person?

- Person who has been designated by the Company as to **have access to UPSI** in the Company; and
- Designated persons are determined **on the basis of:**

FUNCTION

Eg- Accounts department by virtue of their function shall have access to financial statements even before approval
Secretarial department by virtue of their function shall have access to Board Minutes/AGM Minutes even before finalisation

SENIORITY

Eg- first two layers of organisational ladder are presumed to have access to UPSI at all times.



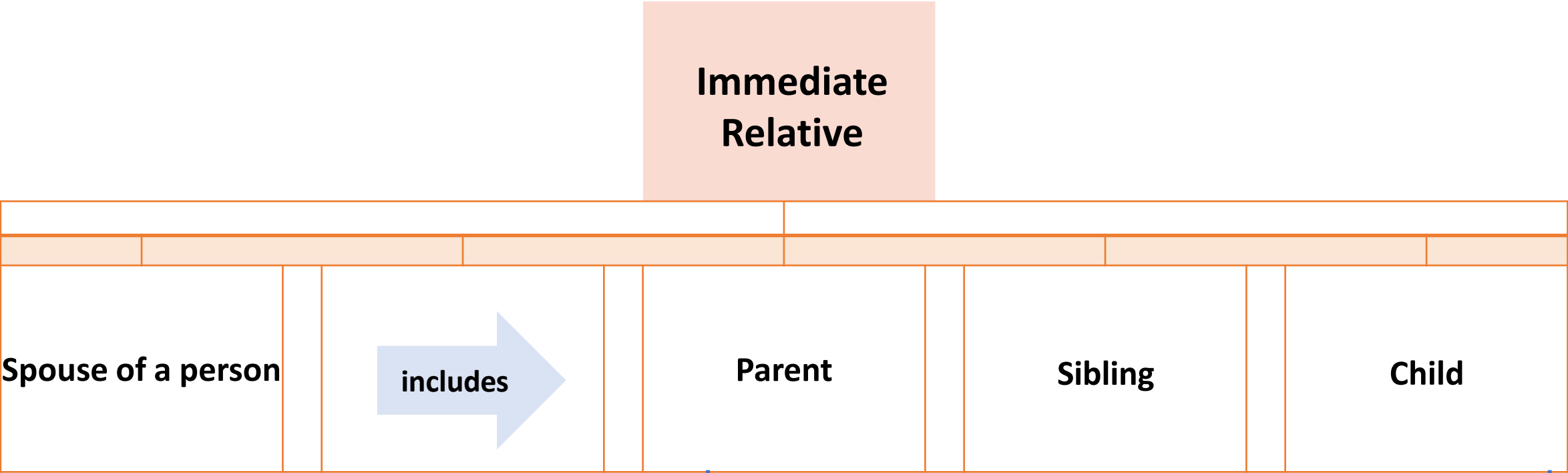
● Designated Person....

Designated Persons
(inclusive definition)

Promoters and Promoter Group of Company		Directors and Key Managerial Personnel of the Company		CEO and employees two level below CEO of Co./ intermediary/ fiduciary and its material subsidiary		Employee of material subsidiaries as designated by their Board of Directors		Support staff of the company e.g. secretarial staff, IR, IT staff having access to UPSI	



● Immediate Relative...



any of whom is either dependent financially on such person or consults such person in taking decisions relating to trading in securities.



●Synopsis - Code of Conduct of the Company ...

- **Applicable** on DPs and immediate relatives;
- **Onus of** formulation of code on CEO and MD;
- To **regulate, monitor and report trading** by DPs and their immediate relatives;
- **Compliance officer** to administer the code;
- **Identification** of DPs on the basis of role and function apart from seniority;
- Policy in relation to access to UPSI on a **need-to-know basis, Chinese wall procedures**, and how to bring people inside;
- Functions of **the Compliance Officer**;
- Dealing with the **leak of UPSI**, protection against victimization of informants;
- **Threshold & formats** for seeking pre-clearance, reporting of trade, disclosures – initial, annual & continual, personal information;
- **Restriction** in relation to contra trade, period of closure of the trading window;
- **Penalty** and reporting in case of contravention of the Code;



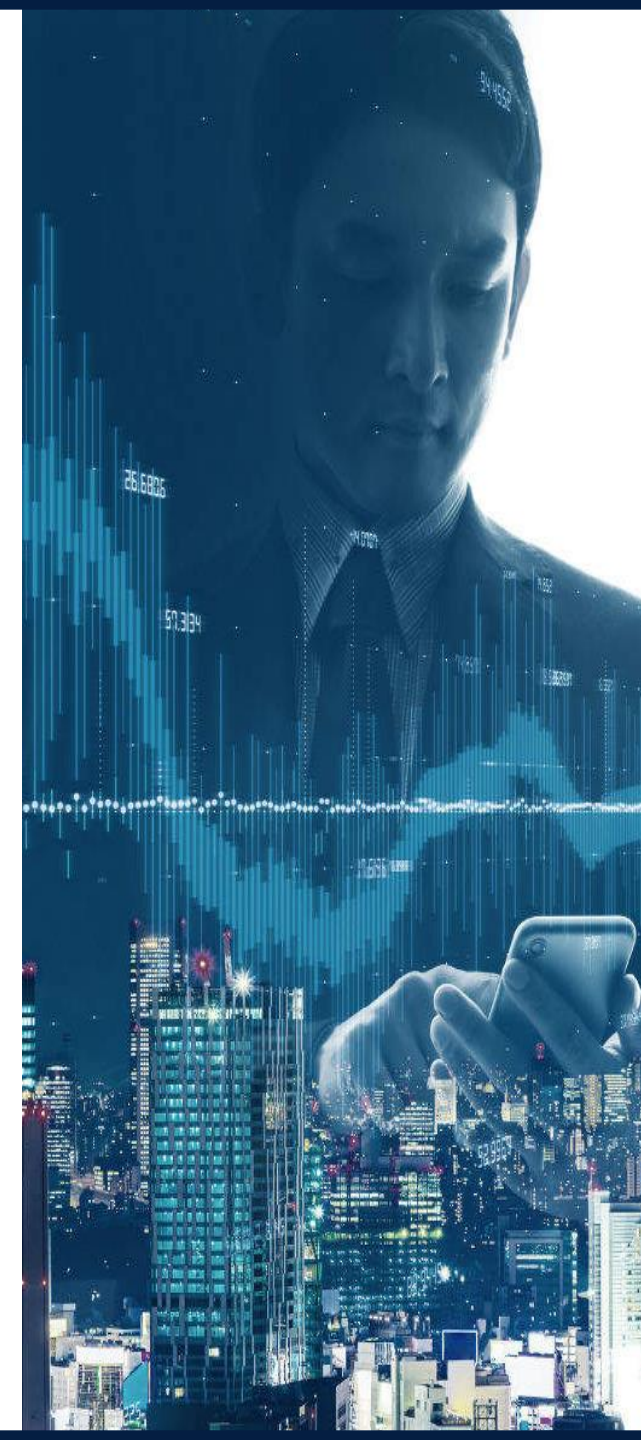
A financial candlestick chart on a dark blue background. The chart features numerous vertical bars, some in a dark grey/blue color and others in a dark red color. Two smooth, wavy lines are overlaid on the chart: one in red and one in blue. The red line generally trends upwards from left to right, while the blue line follows a more fluctuating path. The text 'Walkthrough of the Responsibilities of the DPs.' is positioned on the right side of the chart, with 'Responsibilities' in blue and the other words in white.

Walkthrough of the Responsibilities of the DPs.

● Compliance Requirements for Designated Persons

The **Regulation, Monitoring, and Reporting** of Trades of the Designated Persons & their Immediate Relatives

- Restriction on Trading during the **Trading Window Closure**
- **Pre-clearance** of Trade from the Compliance Officer
- **Contra Trade restriction**
- **Disclosure** of Holding in securities & of trades undertaken



1. Trading Window Restriction....

- Trading Window is the period during which Company's securities can be traded by the Designated Persons

Trading Window Closure:

No Designated Persons (including their immediate relatives) **should trade in the Company's shares during the periods when the trading window is closed.**

Trade or not to Trade



TRADING WINDOW
OPEN



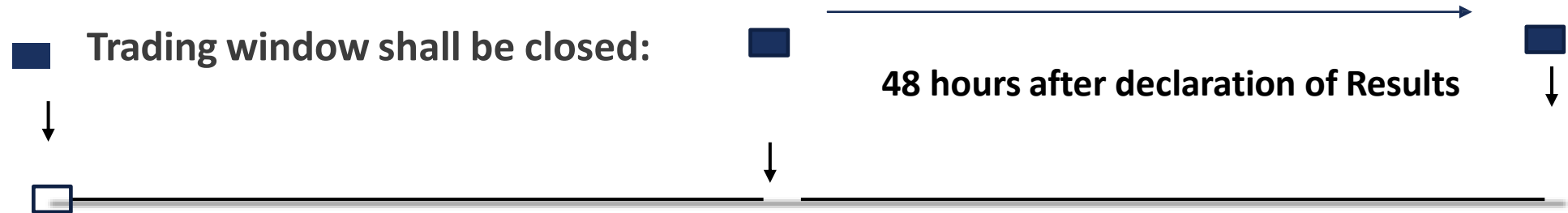
TRADING WINDOW
CLOSURE



● Compulsory Closure of Trading Window

■ FOR ALL THE DESIGNATED PERSONS

■ **In case of Financial Results** from the end of every Quarter till the declaration of Financial Results



30 June, 2023 (quarter end)

Declaration of Financial Results

Reopening of Trading window

■ FOR THE CONCERNED DESIGNATED PERSONS

■ **In the case of UPSI other than Financial Results:**

The Trading window shall be closed from the point when the UPSI get germinated till the time the information either becomes Public or Discarded.



Trading Window Restriction through Freezing of Designated Persons' PAN

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.



● Trading Window Restriction - certain Exemptions

➤ Certain Trades Allowed during Trading Window Closure:

✓ **Exercising of Stock Options**

(Sale of shares allotted on exercise of ESOPs shall not be allowed when the Trading Window is closed)

✓ **Pledge of shares** for a bonafide purpose such as raising of funds

✓ **Subscribing** to Rights Issue, Further Public Issue, Preferential Allotment

✓ Trades pursuant to **Trading Plan**
(discussed further)

✓ Tendering of shares in a **Buy-back Offer, Open Offer, Delisting Offer**

✓ Transaction due to **Statutory or Regulatory obligations**

✓ **Block deal** between Insiders having the same UPSI

✓ **Off-market inter-se** transfers between Insiders

✓ In the case of **non-individual insider**: Individuals possessing the information and those taking decisions were different



● **2. Pre Clearance of Trades...**

- All Designated Persons **shall take a pre-clearance** from Compliance Officer to execute their trades.
- Pre-Clearance shall be obtained by the Designated Person for intended transactions in the Securities of the Company as mentioned **(threshold limit- value wise or quantity-wise)** in the Code of Conduct of the Company.
- The Designated Persons **shall obtain pre-clearance on their Immediate relatives'** behalf also.

☞ **Exercise of ESOP does not require Pre-clearance from Compliance Officer, but the sale of ESOP Shares requires the Pre-clearance**

☞ **Trades shall include all transactions of purchase, sale, subscription, gift etc.**



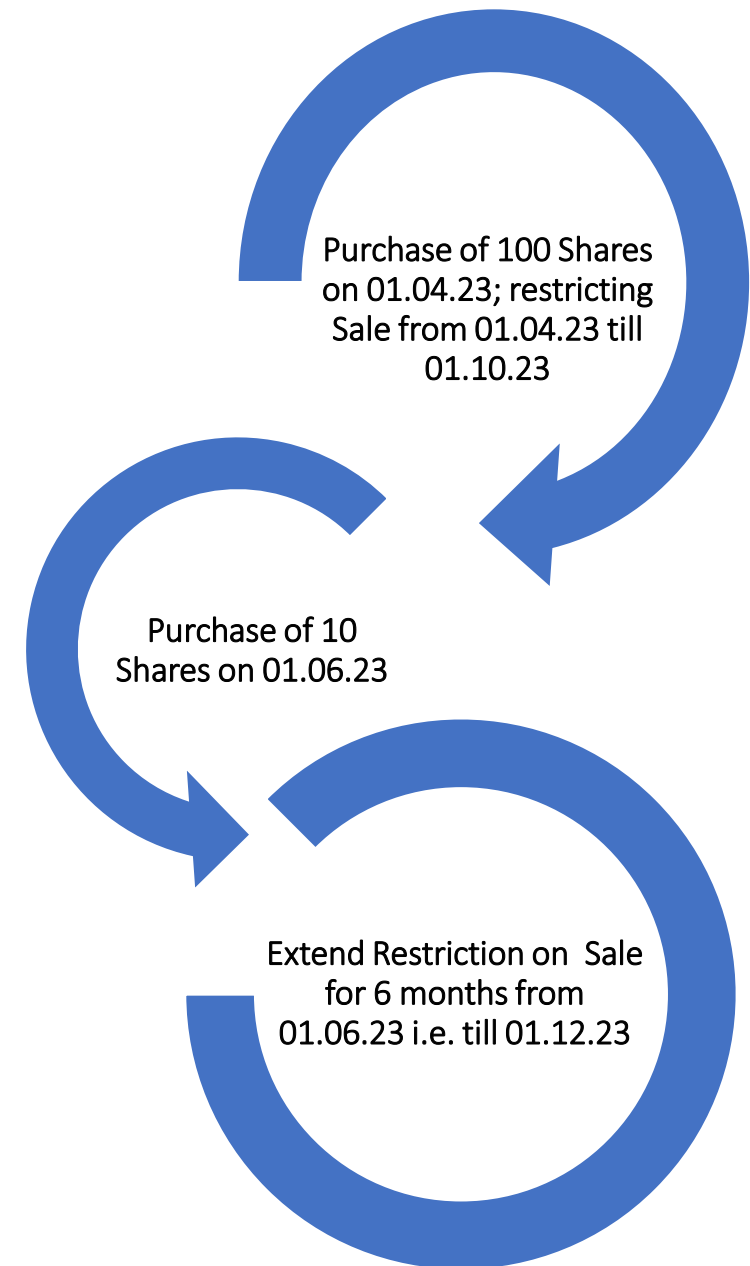
● Pre Clearance of Trades...

- Pre-clearance can only be **applied if the Trading window is open.**
- Pre-clearance of trades shall **not be** required for a trade executed as per an approved **trading plan.**
- Post approval, Trading shall be done **within seven (7) trading days of the pre-clearance** but before the Closure of the Trading Window, failing which fresh approval shall be required.
- After execution of the Trade, details of such trade shall be filed with Compliance Officer **within two (2) trading days of such transaction in the prescribed Form.**



3. Contra Trade Restrictions

- Contra trading means taking an **opposite position** in trading of securities following a Transaction **by the Designated Person or by their declared relatives.**
- Even **Intra day** trade falls under the ambit of **Contra Trading.**
- Restriction of Contra Trading- **Six (6) months following the Prior Transaction.**
- Following shall not fall under the ambit of Contra Tra
 - **Exercise of ESOPs**
 - **Trading Plan** (*discussed further*)
 - **FPOs**
 - **Open Offers**
 - **Buy Back Offers**
 - **Exit offers**
 - **Right Issues**
 - **Bonus**



The *holding period of six months as specified above may be waived by the Compliance Officer after recording in writing his/her reasons in this regard.*

No Contra Trade Restrictions on Exercise of ESOPs...

Previous Transaction	ESOP Exercise
Purchase of securities	
Sale of securities	

Therefore, if a designated person has sold/ purchased shares, he can subscribe and exercise ESOPs at any time after such sale/ purchase, without attracting contra-trade restrictions.

Contra Trade Restrictions on Sale of ESOP Shares...

Previous Transaction	ESOP Exercise	Sale of ESOP Shares
No transactions		Allowed
Open Market Purchase		Not allowed within 6 months
Sell		Allowed



What is Trading Plan...

- Trading Plan - **an option for the Designated person** - who may perpetually be in possession of UPSI.
- **Subsequent possession of UPSI would not prohibit** the execution of Trades as per Trading Plan.

» Restrictions on the Trading plan :

- » can be executed **only after 6 (six)** months from its public disclosure;
- » should entail trading for a period of **at least 12(twelve) months;**
- » is **required to be disclosed to SEs prior** to its implementation (actual trading);
- » is not **revocable**.

» Benefits to make Trading plan :

- » **Pre clearance** of trade will **not be** required for a trade executed as per trading plan.
- » **Restriction on Contra Trade shall not** be applicable when trading is as per approved Trading Plan.



● 4. Disclosure requirements on the DPs...

Requirement on **DPs+ immediate relatives+** any other person for whom DP takes a trading decision

DISCLOSURES

Continual

Promoter, member of promoter group, DP and director

If the value of one or series of transactions in a calendar quarter exceeds Rs. 10 Lakhs

within 2 trading days of such a transaction

- If the Company is **following System Driven Disclosure**, as per the circular dated **September 09, 2020**, **then no manual filing is required.**
- **PAN number of Designated Person/ Directors/ Promoter & Promoter Group** shall be shared with Designated Depository.
- **Based on the PAN, the depositories shall tag the Demat** accounts in their depository systems at ISIN level and share the details with Stock Exchanges daily.



● Accountability of ... Designated Person

A Designated Person shall be responsible and accountable for the following trades:

- Self trades i.e. trading executed by **Designated Person**;
- Trades executed by **Spouse**;
- Trades executed by **Immediate Relatives**;
- Trades executed by **Portfolio Manager**;
- Trades executed by **Brokers**;
- Trades executed by **your connected persons such as a Partnership concern, Firm, Trust, HUF.**



● Key Notes - In Case of Cessation of Designated Person...

- The Designated Person **shall be termed as a Connected Person for a period of 6 months** from the date of cessation either by termination/ resignation or by changing the reporting structure.
- **Do not trade in the securities of the Company** till any UPSI which you possess is made public or expiry of 6 months from the date of cessation, whichever is later.





Walkthrough of the **Do's** and **Don'ts** of the DPs.

● Do's and Don'ts for... Designated Person


Do's	Don'ts
Trade when not in possession of UPSI.	Don't trade when in possession of UPSI.
Trade when the trading window is open .	Don't trade when the trading window is closed.
Trade when pre-clearance granted; Also give the intimation of approved trades executed/not executed.	Don't trade when pre-clearance is not taken or rejected.



● Do's and Don'ts for... Designated Person

- ❑ Make the requisite disclosures under the **code of conduct for both yourself and your immediate relative.**
- ❑ Make disclosure of the **Name & PAN of immediate relatives and persons with whom the material financial relationship** (annually and whenever changes).
- ❑ **Acquaint your immediate relatives** about the compliance of the PIT Regulations.





Penalties Under The Code of Conduct of Company & Law.



**Corporate
Professionals**

4 August 2023

Disciplinary Actions under **Code of Conduct of the Company...**

The penalty imposed/action by the Company may include but shall not be restricted to:

- i. wage freeze,
- ii. suspension,
- iii. recovery,
- iv. claw back, etc.

for any violation of the Code of Conduct of the Company.



Regulatory Actions on Default

- **Directions under Sec 11B of SEBI Act, 1992**
 - Ban from accessing the securities market
 - Ban from sale, purchase & trade in the scrip of the Company.
 - Disgorgement of illegal profits /loss avoided
- **Penalty under Sec 15G of SEBI Act, 1992 [For Insider Trading]**
 - Not be less than Rs 10 Lakh
 - Extend up to Rs 25 Crore; or
 - Three (3) times the amount of profits made out of insider trading, **whichever is higher**
- **Imprisonment & Fine under Sec 24 of SEBI Act, 1992 [For Offences]**
 - Imprisonment up to 10 years or
 - fine up to Rs 25 Crore, or
 - Both
- **Intimation of default in the Code of Conduct of the Company**
 - To Stock Exchanges



Compliance cost nothing, but Non-Compliance costs

Act Diligently



Mohini Varshneya
Partner & Head – ESOP & Insider Law
Services

+91-9971-673-332

mohini@indiacp.com

www.corporateprofessionals.com