



Fostering Awareness among Employees on Insider Trading Compliance



Corporate Governance

is the system by which companies are directed and controlled, ensuring fairness, transparency, and accountability. It aims to protect stakeholders' interests, promote ethical decision-making, and foster long-term sustainability.

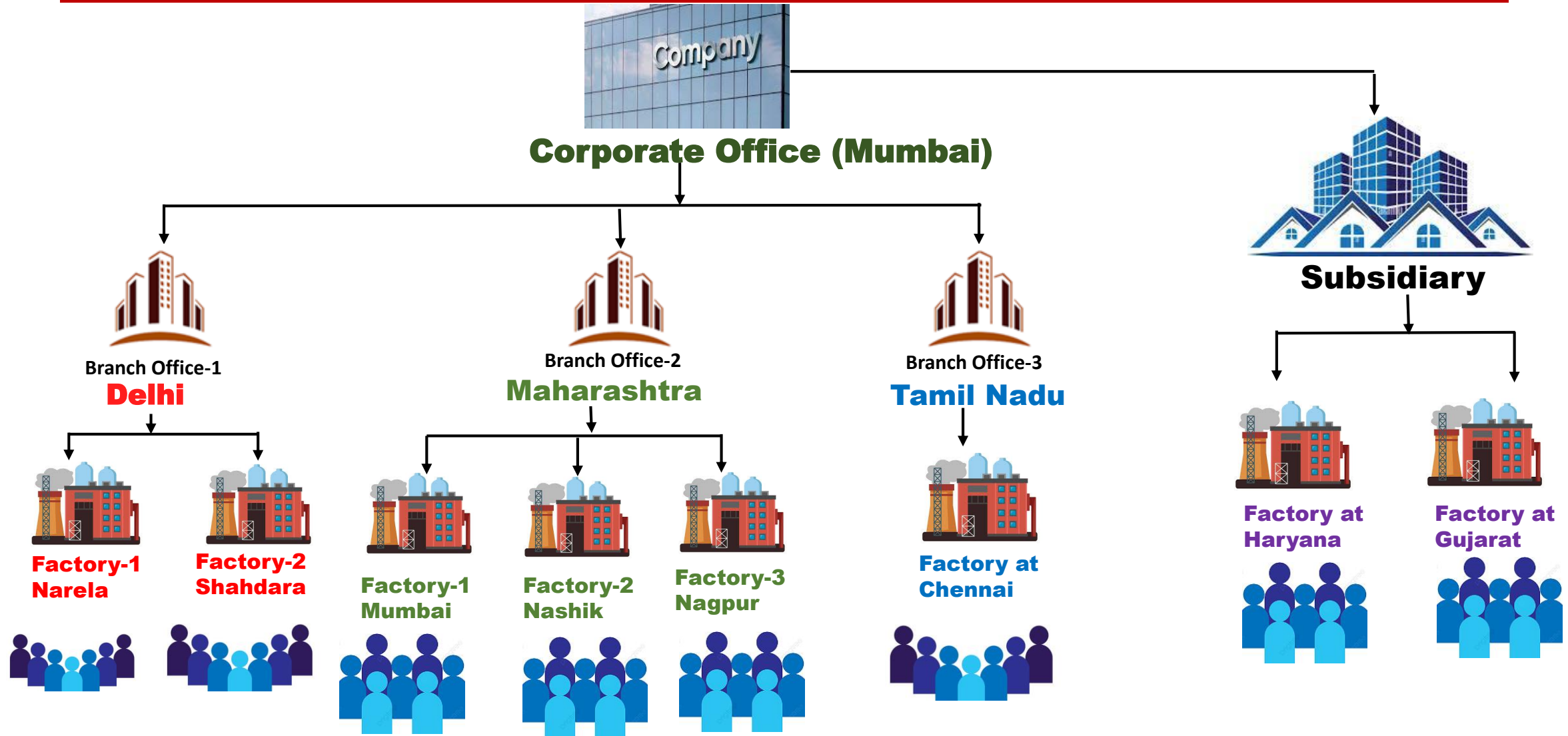
Corporate Governance and Insider Trading

- Insider trading compliance is vital for upholding corporate **integrity, safeguarding market fairness**, and ensuring **adherence to legal and ethical standards**.
- Organizations must foster a **culture of compliance** by equipping employees, board members, and audit committees with the knowledge to recognize and mitigate insider trading risks.
- Companies should implement **regular monitoring and surveillance systems** to **detect unusual trading patterns**, ensuring that any potential insider trading activities are identified and investigated in a timely manner.

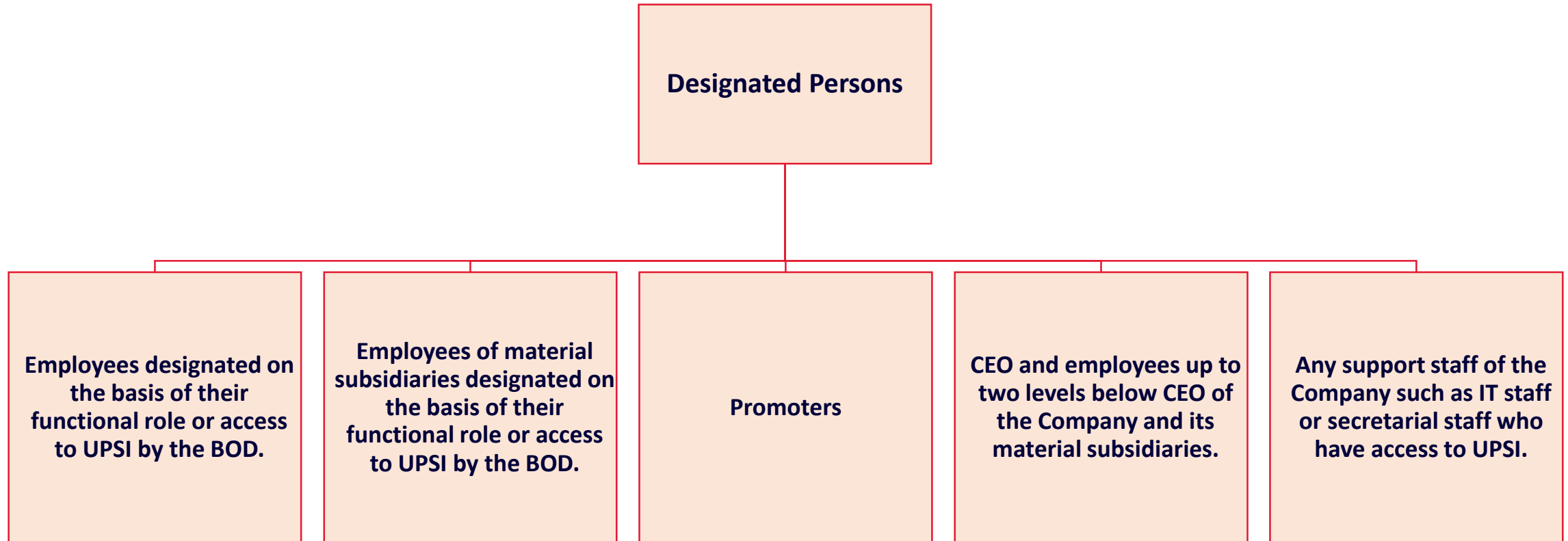
Corporate Governance as a Pillar for Preventing Insider Trading

- **Establishing clear policies:** Governance frameworks implement insider trading policies and codes of conduct, ensuring all employees and stakeholders are informed of their responsibilities regarding the handling of Unpublished Price-sensitive Information (UPSI).
- **Ensuring timely and transparent disclosures:** Effective governance guarantees that material information is disclosed to the public promptly, mitigating the risk of insider trading by ensuring equal access to critical information.
- **Robust internal controls:** Governance structures includes audits and surveillance mechanisms to detect any potential insider trading activities and ensure compliance requirements.
- **Employee training and awareness:** It fosters continuous training programs to educate employees and directors on the legal and ethical responsibilities on insider trading.
- **Whistleblower mechanisms:** Strong governance frameworks establish confidential channels for whistleblowing, empowering employees to report potential violations of insider trading regulations without fear of retaliation, further safeguarding market integrity.

Let us first understand how does an Organization Structure is...

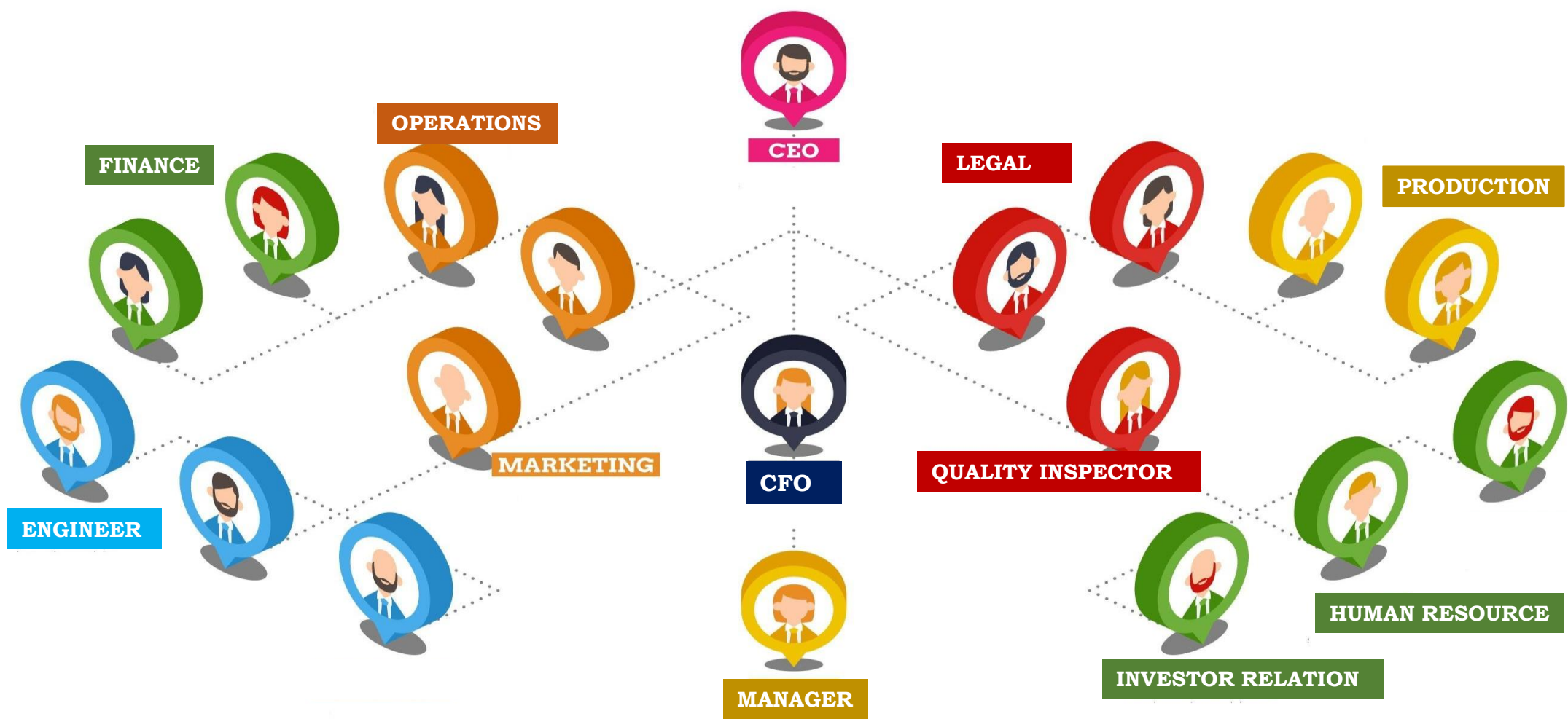


Designated Person as per Regulation 9(4)



Designated Persons are positioned at various levels and functions throughout the organization

COMPANY



Designated Person vis-à-vis knowledge of Insider Trading

- Designated Persons have knowledge of specific areas of responsibility assigned to them, which includes-
 - Compliance and regulatory requirements,
 - Operational procedures,
 - Organization Code of Conduct,
 - Internal control and policies,
 - Other critical functions directly related to their role.
- It may not be practical that every Designated Persons within the organization possess comprehensive knowledge of the insider trading regulations.



Now the question here is-

1. Do you provide training to Designated Persons regarding their responsibilities under Insider Trading regulations?
2. In case of Default under these regulations, what procedure is followed to maintain integrity and ensure ethical compliance ?

Note- Designated Persons are accountable for staying informed about Compliance requirements and cannot claim ignorance as a defense for non-compliance.

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 Trading Window Closure Period and these trades also amounted to Contra Trade.
- The AO did not find merit in submissions of Noticee 1 that he suffered loss of Rs 1,23,715/- while trading in the securities of KTL, which corroborates the fact that he does not have access to any price sensitive information that influence for trading in the securities and imposed a penalty of Rs 2 Lakh.
- Further the Noticee 2 who was an Accountant contended that she did not have access to any Price sensitive information as scope of her work was restricted to compliance of direct tax with regard to TDS compliance and indirect tax laws did not find any merit and was imposed a Penalty of Rs 2 Lakh.
- Notice 3, who was the Compliance Officer has entered contra trade and it was noted that the trade was entered on date of communication of the Board Meeting to the Stock Exchange which was a day prior to the date of closure of trading Window.
- The submission of the Noticee 3 that she has actually incurred a loss of Rs 5930/- on such trade was given no merit by SEBI and a Penalty of Rs 1 Lakh was imposed for violation of Code of Conduct.

How can Organization address this gap?

- **Conduct an Annual Familiarization Program:** Ensure that all Designated Persons undergo a familiarization program at least once a year to stay informed about relevant policies and regulations.
- **Quarterly Familiarization Program:** In case of frequent changes in the Designated Persons ensure that new individuals are promptly familiarized with the required policies and procedures.
- **Confidentiality Agreement:** Ensure that all Designated Persons sign and adhere to a Non Disclosure Agreement to protect sensitive information.



Practices to be followed by Company

- **Knowledge Assessment:** After the Code of Conduct has been reviewed by the Designated Persons, conduct a test to assess their understanding and retention of the information.
- **Regular Mailers:** Regularly send concise mailers highlighting provisions in regulations to keep Designated Persons informed and updated on relevant developments.



What does Open Market & Non-Open Market Trade mean as per SEBI (PIT) Regulations, 2015

As per comprehensive FAQs released by SEBI on PIT Regulations, 2015 dated March 31, 2023:

OPEN MARKET Trade means: Acquisition/ Disposal of securities of the Company either through a stock market mechanism or through settling the transactions in an off-market deal with anyone.

NON-OPEN MARKET Trade means: Acquisition of securities of the Company through the corporate actions route i.e. Right Issue, FPO, OFS, Bonus, Split etc.



Our Services

Structured Digital Database | Legal Advisory on PIT | Familiarization Program for DPs

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Why is this knowledge important?

- Insider trading is a White -Collar crime.
- It can expose the Company to **significant legal, financial, and reputational risks.**
- Engaging in insider trading can severely **damage an organization's reputation.**
- Awareness & training encourages Insiders to **identify potential actions that could lead to an unintentional breach of law and also to create a secured and informed environment in the organization.**
- **Promoting a Culture of Accountability:** It fosters an environment where employees are accountable for their actions and are empowered to report any potential insider trading incidents they observe.
- Hence, this sensitization session is aimed to **create awareness of relating to Insider trading laws.**

Designated Person must know about

- Trade
- Restrictions on Insiders
- Unpublished Price Sensitive Information (UPSI)
- Sharing of UPSI
- Pre Clearance of Trades
- Trading Window Closure
- Contra Trade
- Structured Digital Database
- Disclosures



Trading

The act of **buying, selling, or agreeing to buy or sell any securities** (which include shares, stocks, bonds, debentures, or any other financial instruments) that are listed or proposed to be listed on a recognized stock exchange, either directly or indirectly.



Insider Trading – Trading of securities by individuals or entities who have access to **Unpublished Price Sensitive Information (UPSI)** about the company and use such information to gain an unfair advantage in the trading of securities.

Insider Trading



Insider – Buying/ Selling

- Insiders purchase or sell shares of the Company based on information available to the general public
- **Like**, trading on the basis of financial results disclosed to Stock Exchanges.



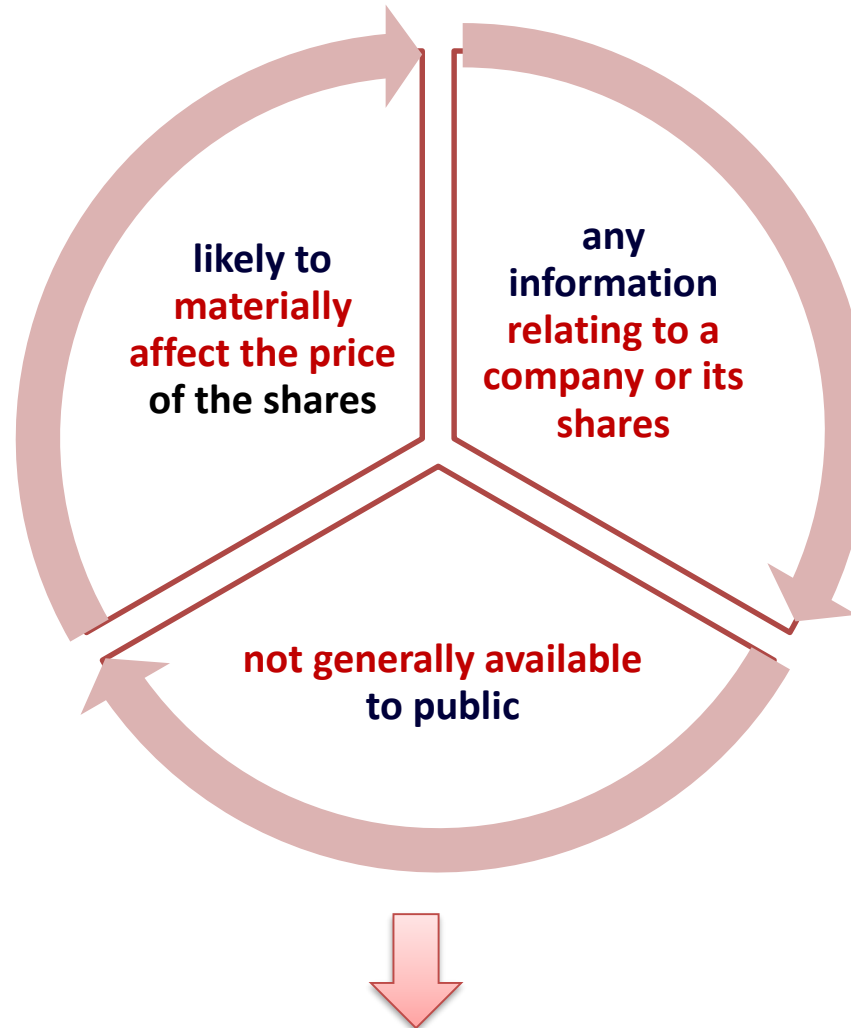
Insider Trading

- Insider trade on the basis of Unpublished Price Sensitive Information
- **Like**, trading on the basis of information that is going to be announced publically in a few days: such as Fund raising, Buy-back etc.

Mechanism of regulating Insider Trading



Unpublished Price Sensitive Information (“UPSI”) means:



These 3(three) are tests for determining any event of UPSI

Sharing of UPSI

(inside/outside the Company)

➤ **UPSI CAN BE SHARED ONLY ON NEED-TO-KNOW BASIS FOR:**

- ✓ Legitimate Purpose
- ✓ Performance of Duties
- ✓ Discharge of Legal Obligations



Sharing of Price Sensitive Information with following persons in ordinary course of business shall be considered as legitimate purpose:

Lenders ,Customers, Suppliers, Merchant Bankers, Legal Advisors, Auditors, Analysts, Insolvency Professionals, Accounting Firm, Collaborators, Partners, Other Advisors Or Consultants.

Trading Window

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

Trade or not to Trade



TRADING WINDOW
OPEN



TRADING WINDOW
CLOSURE

Trading Window Closure:

No Designated Persons shall **deal in any transaction involving purchase, sale, subscribing, pledge/de-pledge etc.** in the Company's shares during the periods when the trading window is closed.

•**PAN of every Designated person shall be frozen** at security level, to prevent them from trading in the securities of the Company from the end of every quarter till 2 trading days after the announcement of Financials Results w.e.f. January 1, 2024.

Pre-Clearance of Trades

- All Designated Persons shall take a pre-clearance from Compliance Officer to execute their trades.
- The Designated Persons shall obtain pre-clearance on behalf of their Immediate relatives also.



Structured Digital Database

- A Structured Digital Database (SDD) is a **web-based solution** used by Companies to maintain detailed records of individuals who have access to UPSI.
- The Designated Persons shall **punch all the entry in the SDD in the portal** through their login credentials w.r.t. to transmission of UPSI.
- The Designated Persons shall **inform the recipients upfront** before sharing any information that the **information they are sharing, is of UPSI nature, and maintaining confidentiality** of such information is the responsibility of both persons.



Contra Trade

- Contra trading means taking **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.**



Disclosure by Designated Persons

- Designated Persons are bound by the provisions of the Code of Conduct for all compliances (including Disclosures) for self as well as for their Immediate Relatives.

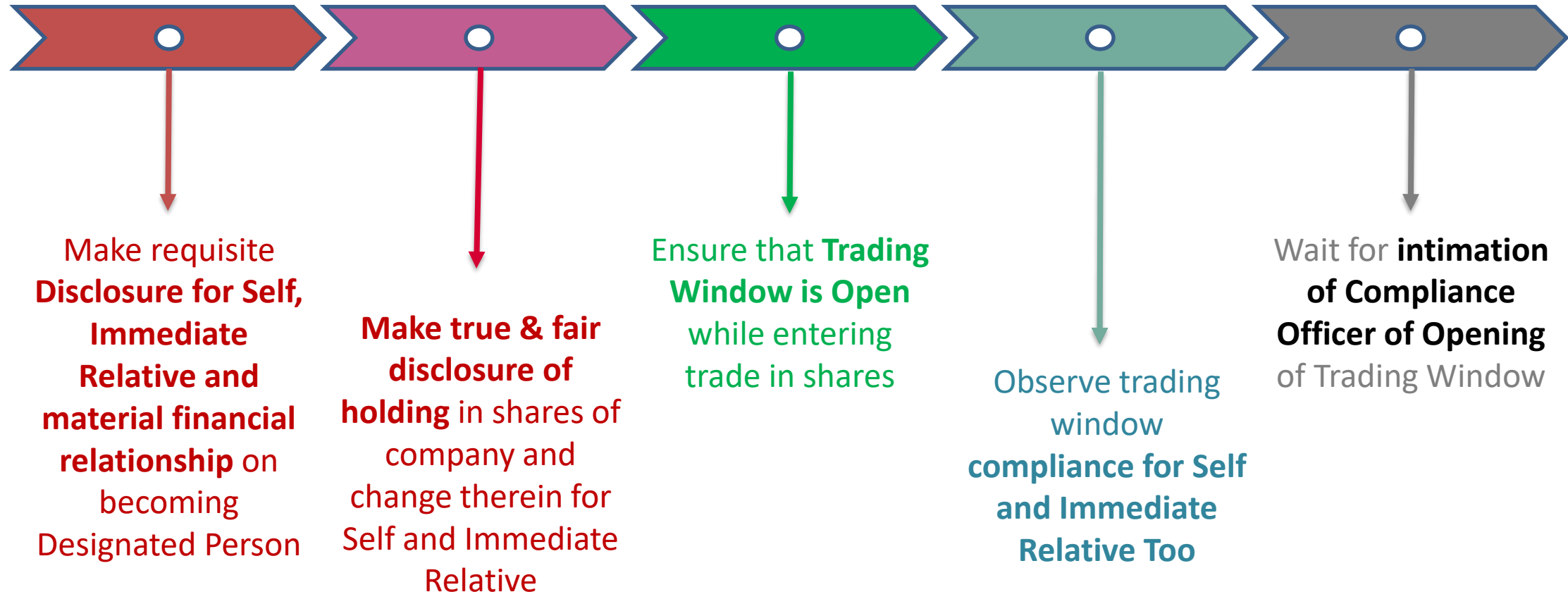




Walkthrough of the **Do's** and **Don'ts** of the DPs.

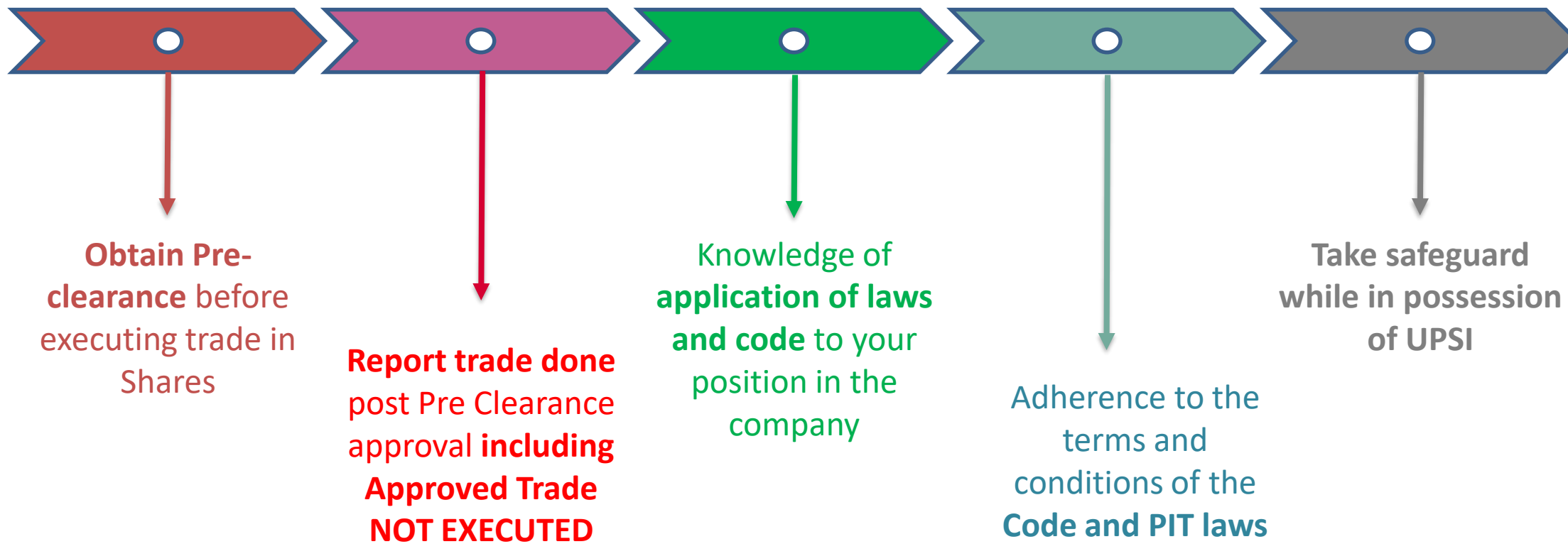


Do's



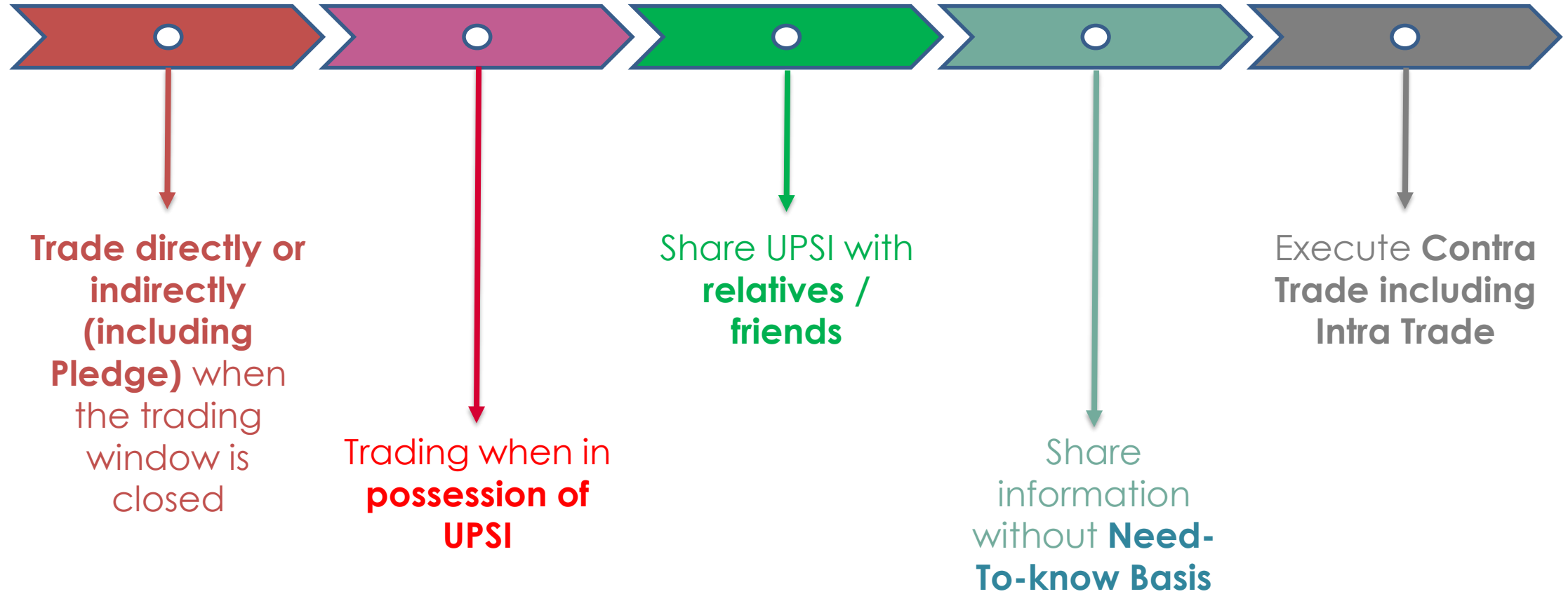


Do's



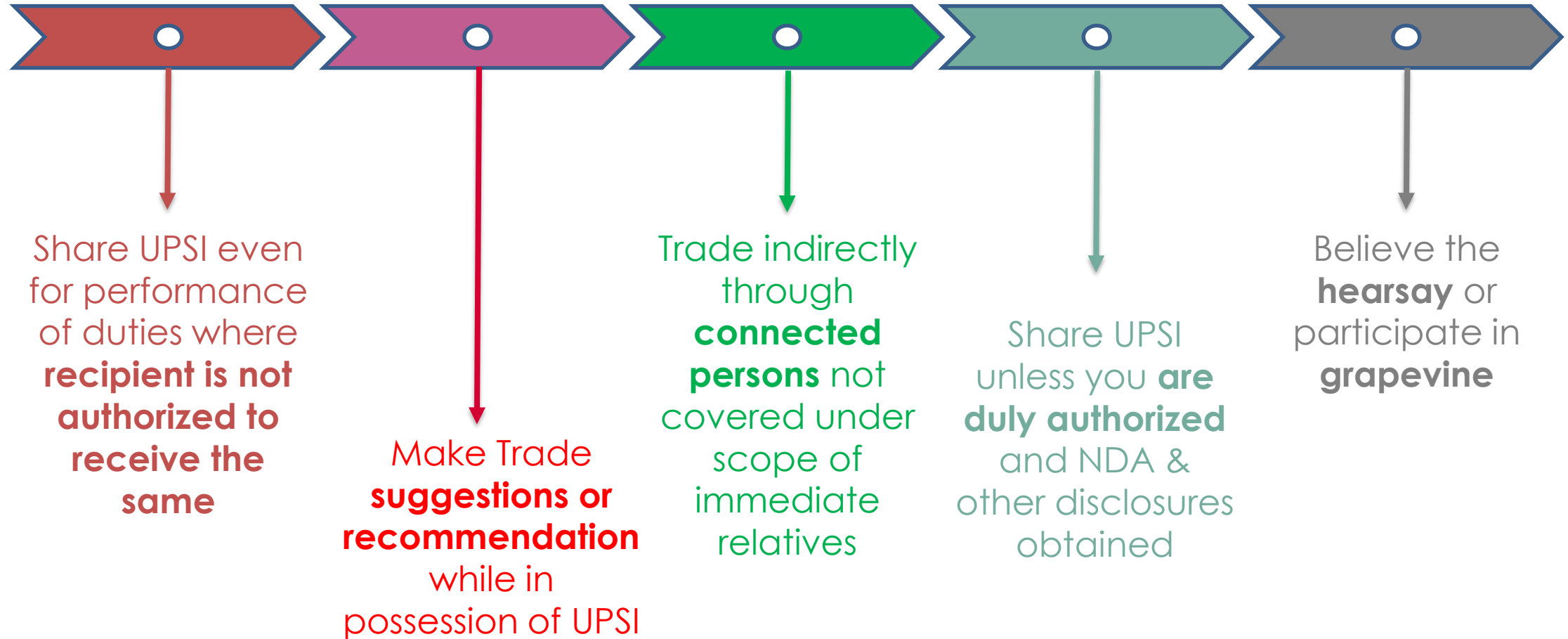


Don'ts





Don'ts



Action on Default

In case it is observed by the listed company, required to formulate a code of conduct that there has been a violation of regulations, it shall promptly inform the stock exchange(s) where the concerned securities are traded .



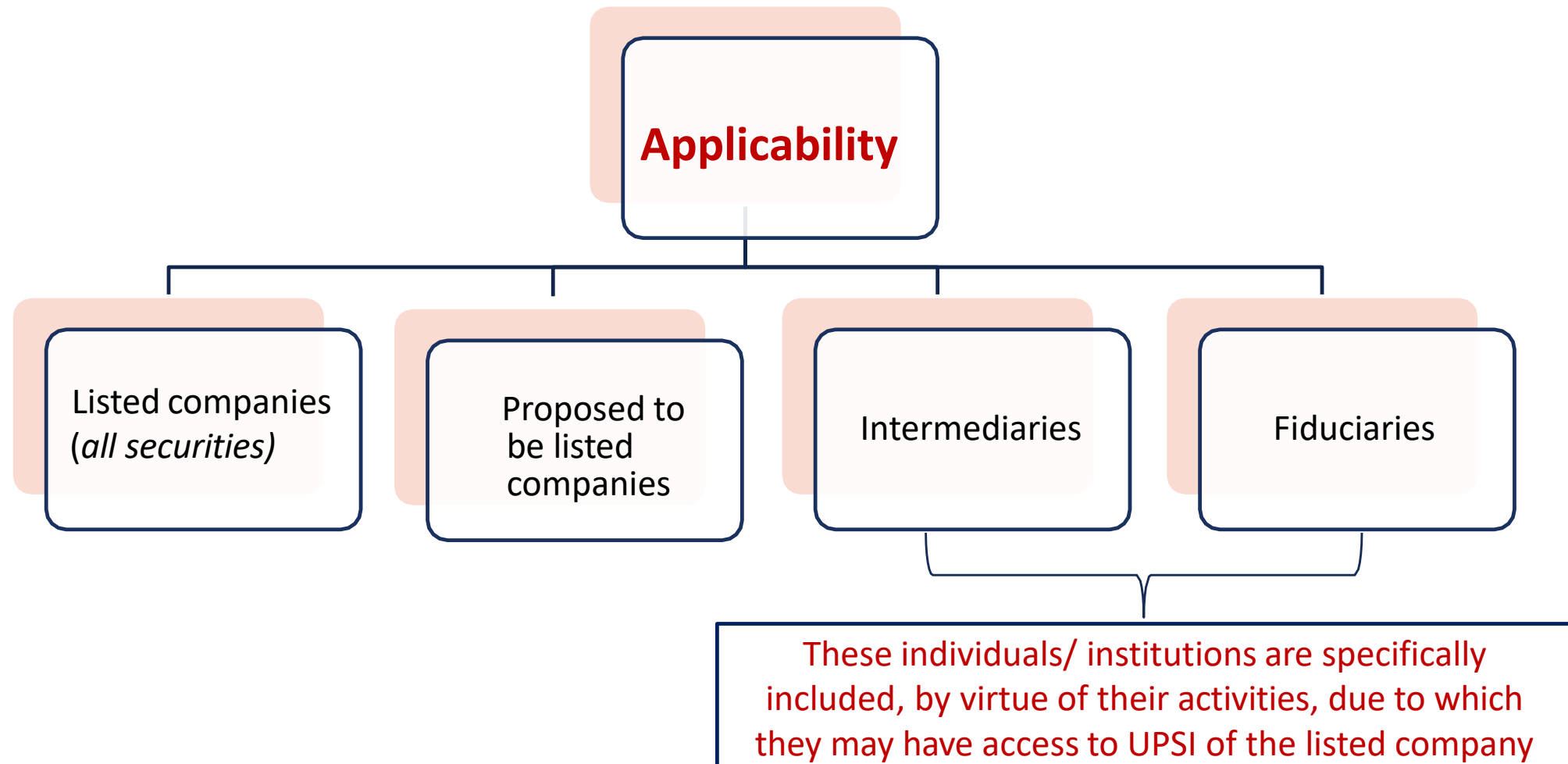
Annexure 2 - Report by (Name of the listed company/ Intermediary/Fiduciary) for violations related to Code of Conduct under SEBI (Prohibition of Insider Trading) Regulations, 2015

[For listed companies: Schedule B read with Regulation 9 (1) of SEBI (Prohibition of Insider Trading) Regulations, 2015

For Intermediaries/ Fiduciaries: Schedule C read with Regulation 9(1) and 9(2) of SEBI (Prohibition of Insider Trading) Regulations, 2015]

Sr. No.	Particulars	Details
1	Name of the listed company/ Intermediary/Fiduciary	
2	Please tick appropriate checkbox Reporting in capacity of : <input type="checkbox"/> Listed Company <input type="checkbox"/> Intermediary <input type="checkbox"/> Fiduciary	
3	A. Details of Designated Person (DP) i. Name of the DP ii. PAN of the DP iii. Designation of DP iv. Functional Role of DP v. Whether DP is Promoter or belongs to Promoter Group B. If Reporting is for immediate relative of DP i. Name of the immediate relative of DP ii. PAN of the immediate relative of DP C. Details of transaction(s) i. Name of the scrip ii. No of shares traded and value (₹) (Date- wise) D. In case value of trade(s) is more than ₹10 lacs in a calendar quarter i. Date of intimation of trade(s) by concerned DP/director/promoter/promoter group to Company under Regulation 7 of SEBI (PIT) Regulations, 2015 ii. Date of intimation of trade(s) by Company to stock exchanges under regulation 7 of SEBI (PIT) Regulations, 2015	
4	Details of violations observed under Code of Conduct	
5	Action taken by Listed company/ Intermediary/ Fiduciary	
6	Reasons recorded in writing for taking action stated above	

Insider Trading Applicability Extends Beyond Listed Entities



A financial candlestick chart is visible in the background. It features a series of red and blue candlesticks representing price movements over time. A red trend line is drawn across the chart, showing an overall upward trend. The chart is set against a dark blue background.

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

Think Diligently.

Thank You