

## **COUNTDOWN BEGUN.....REVAMP YOUR CODES OF CONDUCT & GET ALIGNED WITH THE *new* PROHIBITION OF INSIDER TRADING REGULATIONS, 2015**

The Market Regulator, SEBI with the objective of bringing the basic framework governing the regime of Insider Trading practices in line with the dynamic global scenario and to tighten the gaps of existing norms, has notified the *New PIT Regulations* to be renowned as SEBI (Prohibition of Insider Trading) Regulations, 2015, on 15<sup>th</sup> January, 2015. These Regulations will be effective w.e.f 15<sup>th</sup> May, 2015.



Insider trading has always been an issue on the talk. SEBI's move towards reformation of the extant Regulations is a significant step ensuring confidentiality in the operations and to provide a well governed legal system of the corporate sectors on one hand and to refrain any person from unfair trading in securities who has privilege of having access to unpublished information of any company.

**The new Regulations seem to be more promising and equipped to ensure better compliance and enforcement, therefore it's high time for listed companies, intermediaries, service providers and other market participants to relook and revamp their internal codes of conduct within a month as the new Regulations are about to come in force from 15<sup>th</sup> May, 2015.**

**SEBI, via new norms, has enhanced the role & responsibilities of a Compliance Officer for compliance of policies, procedures, maintenance of records, monitoring adherence to the rules for the preservation of UPSI & implementation of codes specified in the Regulations.**

The Regulations provide that any contravention of these Regulations shall be dealt with by SEBI in accordance with the SEBI Act, 1992. Section 15G of the Act imposes penalty of atleast Rs 10 Lacs, which may extend to Rs. 25 Crore or three times of profits made out of insider trading, whichever is higher. Further Section 24 of SEBI Act even goes to the extent of imprisonment

upto 10 years or fine upto Rs. 25 Crore, or both, for any offences pertaining to contravention of the provisions of the Act.

Hence the Corporates are mandatorily needed to review and restructure their internal policies and codes of conduct so as to become compliant with all the requisites of the new PIT Regulations before 15<sup>th</sup> May, 2015. Non-compliance of the specified requirements shall lead to implication of monetary penalty as well as criminal imprisonment, as the case may be.

### ***Major pre- requisites under the new Regulations:***

- **Code of Fair Disclosure:** The board of directors of every listed company shall **formulate a code of practices & procedures for fair disclosure** in accordance with *Schedule A* & publish on its official website.
- **Code of Conduct:** The new Regulations cast an obligation on board of directors of Listed companies, market intermediaries & all other persons (including professional firms, auditors, consultants etc.) who are essentially in possession of UPSI to **formulate a code of conduct** in accordance with *Schedule B*, to regulate, monitor and report trading by its employees and other connected persons.
- **Trades while in possession of UPSI:** The new PIT Regulations visualize certain exceptional situations in which trading may be allowed by a person being in possession of UPSI and certain defences have been provided through which the person can prove his innocence.
- **Trading Plans (TP):** These Regulations entail a new concept of trading plans which was not there under the erstwhile Regulations on insider trading:
  - ✓ Insider shall formulate a Trading Plan & present it to compliance officer for approval & public disclosure. Upon approval, the Compliance Officer shall notify the TP to the Stock Exchanges.



- ✓ Trading plan shall be for a period of 12 months.
- ✓ Such TP shall not entail commencement of trading earlier than 6 months from public disclosure of plan.
- ✓ Trading shall not commence for the period between 20<sup>th</sup> trading day prior to last day of any financial period for which results are required to be announced by the issuer of the securities & 2<sup>nd</sup> trading day after the disclosure of such financial results.
- ✓ TP shall set out value of trades to be effected or number of securities to be traded along with the nature of trade; and also the intervals/ dates on trade execution.
- ✓ Trading by designated persons shall be subject to pre-clearance by compliance officer.
- ✓ Overlapping TPs are not allowed.
- ✓ A TP once approved, shall be irrevocable and cannot be withdrawn.

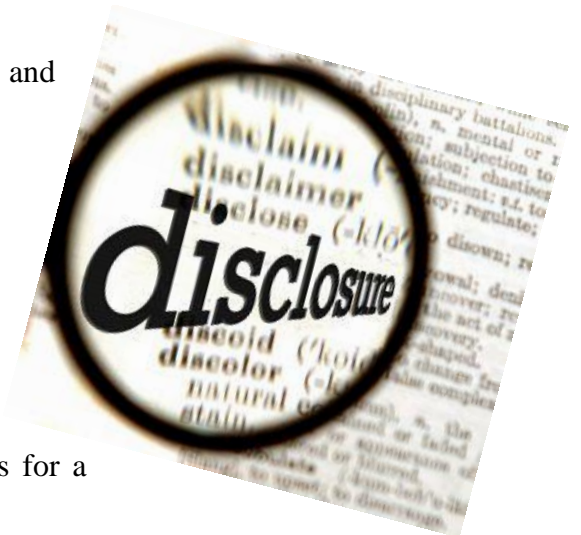
### ***Disclosures***

Detailed Disclosure obligations have been casted upon the Promoters/ KMPs/ Directors/ the persons to be appointed at these positions, within the mandated time lines.

Further, the Company shall maintain the said Disclosures for a minimum period of 5 years.

For easy understanding, the Disclosures needed to be made under the new Regulations have been summarized in the given Table:

<b>TYPE OF DISCLOSURE</b>	<b>WHAT</b>	<b>BY</b>	<b>TO</b>	<b>DURATION</b>
<b>INITIAL DISCLOSURES</b>	Holding in the Company	Promoter, KMP or Director of a listed company	Company	Within 30 days of these Regulation taking effect



	Holding on the date of appointment	Promoter, KMP or Director	Company	Within 7 days of such appointment
<b>CONTINUAL DISCLOSURES</b>	Value of securities traded, in aggregate, in a calendar quarter, exceeds traded value of Rs. 10 Lac or any other value as may be prescribed	Promoter or Director or Employee	Company	Within two days of such transaction
		Company	Stock Exchange	Within two days of receipt of disclosure
<b>DISCLOSURE BY OTHER CONNECTED PERSON</b>	As required by the company	Connected Person	Company	As specified by the Company

### *To Sum Up...*

As said earlier the new Regulations seem more promising and giving assurance about curbing the malpractices prevailing in the market. The new norms chalk out stricter and more focused regulatory regime to minimize the false practices that can take place due to trading based on UPSI. The listed companies and connected Intermediaries shall better abide by the requirements well within time, failing which severe penalties and repercussions may follow.

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