regulatory update

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Amendments to framework for Trading Plans under SEBI (Prohibition of Insider Trading) Regulations, 2015

'Trading Plan' as a mechanism was introduced to enable persons perpetually in possession of unpublished price sensitive information (**UPSI**), to trade in securities in a compliant manner. However, the data and market feedback received by the Securities and Exchange Board of India (**SEBI**) suggested that the regulatory requirements in relation to the trading plans were onerous, which rendered them ineffective.

Noting this, last year on November 24, 2023, SEBI had issued a consultation paper (Link) inviting feedback on providing flexibility in certain provisions relating to 'Trading Plans' under the SEBI (Prohibition of Insider Trading) Regulations, 2015 (**PIT Regulations**).

In furtherance of the consultation paper, SEBI has, on June 25, 2024 (Link) notified changes to the framework for 'Trading Plans' by way of amendments to the PIT Regulations.

The amendments are briefly summarised below:

Amendments

1. **Cool-off period:** The minimum cool-off period between disclosure of the trading plan and implementation of the plan has been reduced to one hundred and twenty calendar days from six months.
2. **Black-out period:** The restriction on trading between 20th day prior to the last of any financial period for which results are announced and 2nd trading day after declaration results, as part o f Trading Plan, has been removed.
3. **Minimum Coverage period:** The requirement to provide a Trading Plan for a minimum period of 12 months has been omitted.
4. **Contents of Trading Plan:** The Trading Plan should set out:
   a. either the value of trade to be effected or the number of securities to be traded;
   b. nature of the trade;
   c. either specific date or time period not exceeding five consecutive trading days
5. **Price Limits:** The insider will have the flexibility to provide price limits in the Trading Plan i.e., upper price limits for buy trades and lower price limits for sell trades. Such price limit is required to be within:
   a. the closing price on the day before submission of the trading plan and up to 20% higher than such closing price, for buy trades;
   b. the closing price on the day before submission of the trading plan and up to 20% lower than such closing price, for sell trades.

   However, where a price limit has been specified, the insider can trade only if execution price of the security is within such limit. If price of the security is outside the price limit set by the insider, the trade cannot be executed.
6. **Flexibility to make adjustments to Trading Plan:** With prior approval of the compliance officer, an insider may make adjustments to the number of securities and price limit in the event of corporate actions related to bonus issue and stock split occurring after the approval of Trading Plan. Such adjustments are to be notified to stock exchanges.

7. **Contra-trade restrictions:** The exemption from contra-trade restrictions to trades executed as per approved Trading Plan is no longer available.

8. **Deviation from Trading Plans:** Insiders are now allowed to deviate from Trading Plans in case of permanent incapacity, bankruptcy or where execution of trade is restricted by operation of law.

9. **Non-execution of Trading Plans:** If the Trading Plan has not been executed (fully / partially) by the insider, the following process is to be followed:

   a. Insider must intimate the Compliance Officer within 2 trading days of end of the tenure of the Trading Plan along with rationale and supporting documents;

   b. The Compliance Officer is to place such documents along with his / her recommendation to accept or reject the submissions of the insider, before the Audit Committee in the immediate next meeting.

   c. The Audit Committee is to decide whether such non-implementation (full/partial) was bona fide or not and such decision is to be notified by the Compliance Officer to the stock exchanges on the same day.

   d. If Audit Committee has not accepted the submission of the insider, then the Compliance Officer has to take action as specified by the Code of Conduct.

10. **Timeline for approval:** The Compliance Officer has to approve / reject the Trading Plan within 2 trading days of receipt and notify the approved plans to the stock exchanges on the same day.

Actionable

- The code of conduct of the entities framed under the PIT Regulations typically sets out provisions relating to trading plans. Such codes will have to be aligned with the above amendments.
- The amendments cast additional responsibility on the Audit Committee of reviewing submissions by insiders in case of non-implementation of trading plans. Accordingly, it would be advisable to apprise the members of the committee regarding the same.
- Some entities have adopted an internal policy for dealing with instances of violation of PIT Regulations. Such policy will have to be amended to include instances for non-implementation of trading plans.

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Key contacts

Yash J. Ashar
Senior Partner *(Bio)*
yash.ashar@cyrilshroff.com

Gazal Rawal
Partner *(Bio)*
gazal.rawal@cyrilshroff.com

Rutu Gandhi
Partner *(Bio)*
rutu.gandhi@cyrilshroff.com

Cyril Amarchand Mangaldas
Advocates & Solicitors

100+ years of legacy **1000** Lawyers **Over 200** Partners

Peninsula Chambers, Peninsula Corporate Park, GK Marg, Lower Parel, Mumbai 400 013, India
T +91 22 6660 4455 **E** cam.mumbai@cyrilshroff.com **W** www.cyrilshroff.com
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