



CIVIL

Insider Trading Compliance Evolution: SEBI's Framework for Immediate Relatives of Designated Persons

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The Securities and Exchange Board of India (SEBI) has issued a circular dated April 21, 2025, to enhance the compliance framework related to insider trading regulations. This initiative is aimed at preventing inadvertent non-compliances of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 ("PIT Regulations"), particularly concerning the trading window closure period for designated persons (DPs) and their immediate relatives.

The background to this circular lies in the existing regulatory requirements under Clause 4 of Schedule B read with Regulation 9 of the PIT Regulations. These provisions mandate that designated persons and their immediate relatives must not trade in securities when the trading window is closed. One specific instance of such closure is the period from the end of every quarter until 48 hours after the declaration of financial results. To ease compliance with these regulations and prevent unintentional breaches, SEBI had previously required stock exchanges and depositories to develop a system to restrict trading by DPs during the trading window closure period by freezing their PAN at the security level. The current circular extends this framework to include the immediate relatives of DPs.

The legal authority for this circular is derived from Section 11(1) of the Securities and Exchange Board of India Act, 1992, along with Regulations 4(3) and 11 of the PIT Regulations. This underscores SEBI's commitment to protecting investor interests and promoting the orderly development and regulation of the securities market.

The implementation of the framework will follow a phased approach. Phase -1 will cover the top 500 companies based on BSE market capitalization as of March 31, 2025, listed on BSE, NSE, and MSEI. The PAN-ISIN freeze for these companies will commence on July 1, 2025. Phase -2 will include all remaining companies listed on BSE, NSE, and MSEI, as well as companies that get listed on stock exchanges after the issuance of this circular. The PAN-ISIN freeze for these entities will start on October 1, 2025.

The process for implementing the system involves several steps. First, the designated depository (DD) appointed by the listed company will enable access to the respective listed company on the portal/platform. Upon login, the DD will auto-populate the PAN and name of DPs and their demat account number / DP ID and client ID (only in case of PAN exempt cases) based on the last updated or available information under system-driven disclosure uploaded by the listed company with the DD.

Next, the listed company will confirm to the DD details regarding the listed ISIN of equity shares of the company, Name, PAN, and confirm the demat account number viz. DP ID and client ID (in case of PAN exempted cases) of DPs and their immediate relatives. If any updates are required to these details, the listed company will take necessary steps as per the specified procedure.

The DD will provide a facility to the listed company to specify the 'Trading Window Closure Period', i.e., the 'Commencement Date' and 'End Date' on the portal/platform. For financial results, the listed company will specify the first day immediately after the end of every quarter for which results are to be announced as the 'Trading Window Closure commencement date' and the date on which 48 hours ends post disclosure of financial results as the 'Trading Window Closure End date' in the portal/platform.

The listed company must provide the above details at least 2 trading days prior to the commencement of the trading window closure date. For example, for financial results for the quarter ending June 30, 2025, the listed company should confirm the details by June 29, 2025.

The DD will provide the details received from the listed company to the stock exchanges and other depositories at least 1 trading day prior to the commencement of the trading window closure commencement date. For instance, for financial results for the quarter ending June 30, 2025, the DD should provide the details by June 29, 2025. During the trading window closure period, the DD will also provide the aforementioned details and any changes therein to the stock exchanges and other depositories on a daily basis.

Depositories will identify demat accounts based on the PAN of the immediate relatives of DP as sole or joint holder. Based on the identified demat accounts and instructions given by the listed company, the depositories will restrict off-market transactions and creation of pledge, including all types of encumbrances, with the reason code as "Trading Window Closure Period".

Stock exchanges, based on data received from the depositories, will restrict on-market transactions of immediate relatives of DP in equity shares and equity derivatives contracts of the listed company from the T day, i.e., the commencement date of the trading window closure period. For example, if the quarter ends on June 30, 2025, the commencement date of the trading window closure period will be July 1, 2025.

In cases where there are additions, deletions, or updates pertaining to the details of DP and their immediate relatives, the listed company will follow the specified procedure. Such changes will be effected within 2 trading days of receipt of intimation from the listed company. For instance, if the trading window closure period is from July 1 to 15, 2025, and the listed company adds any DP and their immediate relatives on July 8, 2025, the change, i.e., freeze, will be effected on or before July 10, 2025.

The system will provide a provision for the listed company to specify details of DP and their immediate relatives to be exempted from Trading Window restriction in accordance with Clause 4 (3) of Schedule B read with Regulation 9 of the PIT Regulations. In such cases, the restriction will be removed within 2 trading days from the date of receipt of the request from the listed company. For example, if the listed company provides exemption to any DP and their immediate relatives on July 9, 2025, the change, i.e., de-freeze, will be effected on or before July 11, 2025. The restriction will be reintroduced automatically post lapse of the exemption period or completion of the transaction by the DP and their immediate relatives.

Freezing or de-freezing of PAN at the security level due to changes from additions or deletions will be effected post-market hours. Pay-in and pay-out obligations in respect of transactions, if any, that took place prior to freezing the PAN of immediate relatives of DP at the security level, may be permitted to be settled, squared off, or closed out as the case may be.

Depositories and stock exchanges will standardize the formats and timelines for data sharing. Operational guidelines for listed companies will be issued by the depositories. In case of any discrepancy, the issue will be resolved by the depositories in coordination with the stock exchanges and the listed company.

Depositories are required to submit quarterly reports to SEBI in the format specified at Annexure- C. The report will include the total number of listed companies which have appointed the Depository (NSDL/CDSL) as Designated Depository (DD), the total number of listed companies on which implementation of the framework for automated trading window closure to immediate relatives of Designated Persons ("DP") was made applicable, the total number of unique and valid PAN's of immediate relatives of DP provided by listed companies for implementation of automated trading window closure at the end of the quarter, the total number of demat accounts in which automated trading window closure of the immediate relatives of DP was carried out, and the total number of exemptions given to immediate relatives of DP as per PIT Regulations from automated trading window closure.

In conclusion, SEBI's recent circular marks a significant advancement in the regulatory framework governing insider trading in India. By extending the automated trading window closure period to the immediate relatives of designated persons, SEBI highlights its commitment to ensuring transparency, fairness, and integrity in the securities market. This initiative not only strengthens the compliance mechanism but also reinforces investor protection by minimizing the risk of inadvertent breaches of insider trading regulations. As the phased implementation unfolds, listed companies, depositories, and stock exchanges must collaborate closely to ensure smooth execution of the new framework. The success of this regulatory measure will not only enhance market credibility but also align India's securities market with global best practices, fostering a more robust and trustworthy investment environment for all stakeholders.

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