



SEBI changes informant mechanism under Insider Trading Regulations | Code of conduct for fund managers and dealers introduced | AMCs allowed to become self-clearing members

INSIGHTS

November 2, 2020

In continuation of the SEBI board meeting dated September 29, 2020 ([available here](#)), following changes have been implemented by SEBI:

- Changes in the mechanism with respect to the information to be submitted by informants under the informant mechanism of the SEBI (Prohibition of Insider Trading) Regulations, 2015 (**PIT Regulations**);
- Introduction of Code of Conduct for Fund Managers including Chief Investment Officers and Dealers of Asset Management Companies under the SEBI (Mutual Funds) Regulations, 1996 (**Mutual Fund Regulations**).

Key changes are as follows:

Changes in informant mechanism under the PIT Regulations

- **What constitutes timely information for SEBI to initiate action:** PIT Regulations provide for a mechanism wherein an informant can provide certain relevant information (referred to as '**Original Information**') in Voluntary Information Disclosure Form (**Disclosure Form**) to SEBI regarding violation of insider trading laws. There are certain factors for an information to be considered as Original Information, one of such being, it is sufficiently specific, credible and timely to - (1) commence an examination or inquiry or audit (2) assist in an ongoing examination or investigation or inquiry or audit (3) open or re-open an investigation or inquiry or (4) inquire into a different conduct as part of an ongoing examination or investigation or inquiry or audit directed by SEBI. In this context, SEBI has now clarified that the information shall be considered timely, only if as on the date of receipt of the duly completed Disclosure Form by SEBI, a period of not more than three (3) years has elapsed since the date on which the first alleged trade constituting violation of insider trading laws was executed.
- **Specific information to be provided by the informant in the Disclosure Form:** Informant is required to describe in detail how the information submitted by him / her constitutes a violation of insider trading laws. The details must include specific information with respect to:
 - details of the securities in which insider trading is alleged;
 - the unpublished price sensitive information based on which insider trading is alleged;
 - date on which the unpublished price sensitive information was made public;
 - details of circumstances/evidence leading to possession of unpublished price sensitive information by the alleged violator(s);
 - details of insiders/suspects and their trades (i.e. purchase/sale and quantity purchased/sold) along with dates/period of trades.

The aforesaid amendment has been made vide the SEBI (Prohibition of Insider Trading) (Second Amendment) Regulations, 2020 dated October 29, 2020 ([available here](#)).

Detailed code of conduct introduced for fund managers and dealers | AMCs can become self-clearing members

- **Code of conduct for Fund Managers and Dealers introduced | CEOs to intimate breach to board of directors of AMC and Trustees | Quarterly reporting for the code of conduct**
 - A detailed code of conduct (**Fund Managers Code of Conduct**) has been introduced for Fund Managers including Chief Investment Officers and Dealers of Asset Management Companies (**AMCs**);
 - Fund managers and Dealers are required to submit a quarterly self-certification to the Trustees that they have complied with the Fund Managers Code of Conduct or list exceptions, if any;
 - Chief Executive Officer (whatever be the designation) (**CEO**) shall also ensure that the AMC has adequate systems in place to ensure that the Fund Managers Code of Conduct are adhered to in letter and spirit. Any breach of the Fund Managers Code of Conduct is required to be brought to the attention of the Board of Directors of the AMC and Trustees;

- The Dealers are required to ensure that orders are executed on the best available terms, taking into account the relevant market at the time for transactions of the kind and size concerned to achieve the objectives of the scheme and in the best interest of all the unit holders.
- **AMCs permitted to become self-clearing members:** AMCs can now become a self-clearing member of the recognized clearing corporations to clear and settle trades in the debt segment on behalf of its mutual fund schemes. This is in addition to existing facility where an AMC is allowed to become a proprietary trading member for carrying out trades in the debt segment of the recognized stock exchanges, on behalf of its mutual fund schemes.

The aforesaid amendment has been made vide the SEBI (Mutual Funds) (Second Amendment) Regulations, 2020 dated October 29, 2020 ([available here](#)).

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