

# SEBI widens the definition of 'Connected Persons' for facilitating enhanced enforcement against insider trading

|   | Amendments approved by SEBI  |
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| <ul style="list-style-type: none"> <li>● <b>Objective</b> <ul style="list-style-type: none"> <li>○ Facilitate effective investigation and enforcement against insider trading</li> </ul> </li> </ul>  | <ul style="list-style-type: none"> <li>● Change in the definition of CP u/r 2 (1)(d) <ul style="list-style-type: none"> <li>○ Insertion of following relationships <ul style="list-style-type: none"> <li>■ a firm or its partner or its employee in which a CP is also a partner; (relation reference taken from the definition of related party ('RP') as per CA, 2013) and</li> <li>■ Persons sharing household or residence with CP; (relation added basis the experience.)</li> </ul> </li> <li>○ Term 'immediate relative' replaced by 'relative'.</li> <li>○ Insertion of definition of 'relative' to mean <ul style="list-style-type: none"> <li>(i) spouse of the person</li> <li>(ii) parent of the person and its spouse</li> <li>(iii) sibling of the person and its spouse;</li> <li>(iv) child of the person and its spouse;</li> <li>(v) spouse of the person listed at (iii) and (iv)</li> </ul> </li> <li>○ No change prescribed for definition of CP applicable for MF units under Chapter II-A.</li> </ul> </li> </ul>  |
| <ul style="list-style-type: none"> <li>● <b>Impact of approved proposal</b> <ul style="list-style-type: none"> <li>○ Definition includes more categories of person within the ambit of Connected Person ('CP').</li> <li>○ Definition of 'relative' is limited to identifying CP</li> <li>○ No additional disclosure requirements applicable</li> </ul> </li> </ul>   |  |
| <ul style="list-style-type: none"> <li>● <b>Who is a CP?</b> <ul style="list-style-type: none"> <li>○ Person who has a connection with the company that is expected to provide/ give access to UPSI.</li> <li>○ Deemed to be CPs are persons who are in regular touch with the company/ officers.</li> <li>○ CPs can potentially indulge in insider trading.</li> <li>○ When a charge under regulation 4(1) of PIT Regulations is levelled on such deemed CPs, onus will be cast on such persons to prove that they were not in possession of UPSI.</li> </ul> </li> </ul>  | <p><b>Changes proposed in the <a href="#">consultation paper</a> dated July 29, 2024 but not approved</b></p> <ul style="list-style-type: none"> <li>● To define relative by aligning with Sec. 56 (2) (v) of IT Act, 1961, however, following relations were not approved <ul style="list-style-type: none"> <li>(i) any lineal ascendant or descendant of the individual or spouse;</li> <li>(ii) sibling of parents</li> <li>(iii) spouse of person referred in clause (i) and (ii) above</li> </ul> </li> <li>○ The following additions in the definition of CP. <ul style="list-style-type: none"> <li>■ Relations identified from related party definition as per CA, 2013 <ul style="list-style-type: none"> <li>● any person on whose advice, directions or instructions a CP is accustomed to act;</li> <li>● a body corporate whose board of directors, MD or manager is accustomed to act in accordance with the advice, directions or instructions of a CP.</li> </ul> </li> <li>■ Other relation identified based on experience <ul style="list-style-type: none"> <li>● Persons having material financial relationship ('MFR') with a CP including for reasons of employment or financial dependency or frequent financial transactions;</li> <li>● an HUF where Karta or any of the member/coparcener is a CP or a relative of CP.</li> </ul> </li> </ul> </li> </ul> |
| <ul style="list-style-type: none"> <li>● <b>Any implication on the scope of 'immediate relative'?</b> <ul style="list-style-type: none"> <li>○ No change. The definition and applicability of provisions remains same as per existing regulations. <ul style="list-style-type: none"> <li>■ Disclosures of trade u/r 6(2) <ul style="list-style-type: none"> <li>● Promoters, promoter group, directors and designated persons u/r 7</li> </ul> </li> <li>■ Adherence to Code of Conduct u/r 9 (1)</li> <li>■ No additional requirement being introduced</li> </ul> </li> </ul> </li> </ul>   |  |
| <ul style="list-style-type: none"> <li>● <b>Actionable for</b> <ul style="list-style-type: none"> <li>○ listed entities <ul style="list-style-type: none"> <li>■ Reg. 7 (3) empowers listed entities to seek disclosures from CPs to monitor compliance with PIT Reg. in Form C.</li> <li>■ DPs may be sensitized on the expanded scope, in view of onus of CP</li> </ul> </li> <li>○ Actionable on fiduciaries/ intermediaries <ul style="list-style-type: none"> <li>■ Contra trade restrictions in terms of Code of Conduct applies to a DP who is a CP of the listed company.</li> <li>■ DPs to be sensitized on the expanded scope of CP.</li> </ul> </li> </ul> </li> </ul> |  |