

FAQs on contra trade restrictions under PIT Regulations

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Brief Background

The restrictions on contra trade have been a part of PIT Regulations since 2008 after SEBI's [Consultative Paper on introduction of 'Short Swing Profit' regulations in India](#) ('Consultative Paper'). The intent of contra-trade restrictions is to restrict the DPs, who are presumed to have access to UPSI, from earning short-term profits.

Para 2 of the Consultative Paper providing the intent is reproduced here - *"The Regulation will check insiders, who have greater access to price sensitive company information, from taking advantage of information for the purpose of making short-term profits (short swing profits). It is assumed that insiders have a long term investment in the company and are not expected to make rapid buy/sell transactions, which are assumedly based on at least some level of superior access to information, whether material or not."*

While the concept of contra trade is not new, various questions arise on practical implementation of the contra trade restrictions. Further, a breach of contra trade restrictions result in disgorgement of profits, hence, it is equally important for both the Designated Persons and the Compliance Officer to understand what construes contra trade, whether a waiver may be granted by the CO for such trades and when does the breach require disgorgement of profits, etc. SEBI's Comprehensive FAQs on PIT Regulations issued on [December 31, 2024](#) also deals with various practical issues in relation to contra-trade restrictions.

In the FAQs below, we have discussed some important issues regarding contra trade restrictions. These FAQs can be read with our FAQs on PIT Regulations [here](#). Our Resource Centre on PIT Regulations can be accessed [here](#).

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Concept of contra trade

1. What is the meaning of contra trade?

Contra trade, also referred to as reversal trades or short swing trades, refers to an exercise where a person engages in opposite trades (that is buy-trade followed by a sale-trade, or a sale-trade

followed by a buy-trade) within a short period of time so as to derive benefits from the movements in price of such securities.

2. Is contra trade a clear no-no or merely a profit surrender requirement?

Given that frequent insiders should not engage in short-term profiteering in the entities where they are insiders, contra-trade is a clearly prohibited act under the PIT Regulations except for the regulatory exemptions or where a waiver has been provided from strict applicability of the same by the Compliance Officer. Accordingly, the same is not merely a profit surrender exercise.

3. What are the prohibitions contained in PIT Regulations in relation to contra trade?

The source of the prohibition is the Code of Conduct which companies frame, in line with the model Code of Conduct as prescribed under the PIT Regulations - clause 10 of Schedule B (for Listed Companies) and Clause 8 of Schedule C (for Intermediaries and Fiduciaries). The Code prohibits a DP and DP's immediate relatives from executing contra trade i.e. an opposite trade in next 6 months, of course, with limited possibility of waiver.

4. From where is the period of 6 months coming from in relation to contra trade prohibitions?

The period of 6 months is prescribed in the model CoC itself, the clause provides 6 months as the minimum restricted period for opposite trades, however, enabling listed entities to provide for a period which may be longer than 6 months as well. The clause reads as:

The code of conduct shall specify the period, which in any event shall not be less than six months, within which a designated person who is permitted to trade shall not execute a contra trade.

Globally too, the insider trading norms prohibit short-swing trades within a 6 months' period, for instance, under Section 16(b) of SEC Act, or Article 44 of Securities Law of the People's Republic of China or Article 164 of Financial Instruments and Exchange Act in Japan etc.

5. Whether the date of first trade (acquisition/ disposal) is included or excluded in the computation of six months' period for contra-trade restriction?

As clarified in the informal guidance provided to [Glenmark Life Sciences Limited](#) by SEBI (*para 3.1*), the period of six months is to be computed from the date of the first transaction itself. Hence, the date of the first trade will be included in this period.

6. Whether the number of securities, or the principle of FIFO, is relevant for contra-trade or is the restriction applicable regardless of the number?

No, the number of securities is not relevant for the purpose of contra-trade restrictions, only the nature of previous trade, viz., whether the previous trade is a "buy" or "sell" trade matters. For instance, assume 1000 shares were purchased by a person in January, 2025 and 500 additional shares were purchased in March, 2025, subsequently if only 200 shares have been sold in July, 2025, the same would still constitute contra trade as against the trade undertaken in March. That

the sale may be out of the shares purchased in January, 2025 is not relevant. In other words, sequence of the trades also does not matter - the reversal trade will be compared with the last trade done by the DP.

7. Is contra trade restriction only applicable to trades under pre-clearance or on any transaction even if the trading does not exceed the threshold limit? [\(Q. no. 47 of SEBI FAQs\)](#)

Contra trade restrictions are applicable on each and every trade irrespective of whether the trades are subject to preclearance or not.

8. Whether contra trade is exempt for trades carried out pursuant to a trading plan?

Contra trade is not allowed within the duration of the trading plan. Prior to SEBI (Prohibition of Insider Trading) (Second Amendment) Regulations, 2024, a proviso to Reg 5(3) of the Regulations granted relaxations from contra-trade restrictions for trades carried out in accordance with an approved trading plan. However, such exemption has been omitted pursuant to the aforesaid Amendment Regulations. The purpose of the trading plan is not to speculate but rather to facilitate the insider in possession of UPSI to buy and sell in a compliant manner. Thus, trades pursuant to trading plan are not exempt from contra trade restrictions.

9. Do contra-trade restrictions apply to debt securities of the company? [\(Q. no. 44 of SEBI FAQs\)](#)

For the applicability of PIT Regulations, securities shall have the same meaning assigned to it under the Securities Contracts (Regulation) Act, 1956. The definition of securities covers debt securities as well. Where such debt securities are listed/ proposed to be listed, the applicability of PIT Regulations, including contra-trade restrictions trigger.

Persons on whom contra trade restrictions are applicable

Applicability on Designated Persons

10. Is the contra trade restriction applicable if one of the two opposite trades are undertaken when the Designated Person is not a Designated Person?

No, for a trade to be considered as contra-trade, both the first trade and the second opposite trade should be undertaken by the Designated Person or its immediate relative. If the person ceases to be a DP after the first trade, the second trade, though resulting in an opposite trade within 6 months, is not taken to be in breach of the contra trade restrictions. Similar principle is also covered under section 16(b) of the SEC Act, in the USA context.

- 11. If DP is holding shares under his PAN in different capacities viz. in his personal capacity, in the capacity of trustees, in the capacity of an executor of will, etc., will the restrictions of contra trade be applicable to all the shares held in all the capacities collectively or individually? [\(Q no. 42A of SEBI FAQs\)](#)**

The restriction to engage in contra trade as provided under the provisions of the PIT Regulations would be applicable to all the shares held under the PAN of the DP, irrespective of the capacities in which such DP holds such shares in the Company. This is based on the rationale that the trading decisions in respect of such shares are taken by the same person (DP), irrespective of the capacity in which such shares are held and the recipient of the profits.

Applicability to immediate relatives

- 12. Whether the contra-trade restrictions as prescribed in Schedule B and Schedule C of PIT Regulations are applicable to DPs only or their immediate relatives too? [\(Q no. 42 of SEBI FAQs\)](#)**

Schedule B and C provide the minimum standards of the Code of Conduct as required under Reg 9 of PIT Regulations. Reg 9(1) and (2) requires the CoC to regulate, monitor and report trading by the DPs and their immediate relatives. Further, Clause 3 of Schedule B and Schedule C also clarifies that the DPs and their immediate relatives shall be governed by an internal code of conduct governing dealing in securities. Hence, contra-trade restrictions (as mentioned in the Code of Conduct) are applicable to both the DPs and their immediate relatives.

- 13. Whether the contra trade restrictions are collectively applicable to DPs and their immediate relatives or individually?**

SEBI FAQs state that contra-trade restrictions (as mentioned in code of conduct) would be applicable to DPs and their immediate relatives collectively. Therefore, the shares held by a DP and its immediate relatives is to be considered on a collective basis, against the trading done by them, for the purpose of identifying whether a trade is contra trade or not. This is based on the premise that a DP and its immediate relatives are considered as one economic unit - and hence, the trades undertaken by them are not considered individually, but collectively. Refer informal guidance provided by SEBI to [Century Plyboards \(India\) Limited](#) (para 3.3), and [SEBI FAQs](#) (FAQ no. 42).

- 14. ‘SB’, a DP of a listed entity purchases 50,000 shares on November 21, 2024 and gifts 1,00,000 shares to his daughter A (immediate relative of DP) on December 10, 2024. Z has another daughter B (immediate relative of DP) who sells 20,000 shares in the open market on December 20, 2024. Examine the applicability of contra-trade violations in this case.**

The trades covered under the aforesaid example and applicability of contra trade restrictions on the same can be examined as follows:

1. Purchase of shares by DP - “buy” transaction
2. Gift to immediate relative - *inter se* trade, hence, disregarded
3. Sale of shares by another immediate relative - “sale” transaction

The first transaction involves purchase of shares by the DP. The second transaction, being a gift of shares from a DP to its immediate relative, results in a ‘sale’ trade by the DP (SB) and a ‘buy’ trade by the immediate relative (A) simultaneously. However, since the DP and its immediate relatives are considered one economic unit, the trades are seen on a collective basis, and thus, *inter se* trade need to be disregarded.

The third transaction involving sale of shares by the immediate relative of DP is matched against the first transaction involving purchase of shares by the DP. The gap between the two being less than six months, contra trade restrictions have been violated in the given case.

- 15. In the case of a gift of shares from the DP to an HUF where the DP is Karta, does contra trade restrictions apply against a previous purchase of shares by the DP in the last six months? Can such shares be subsequently sold by the HUF within the next six months?**

The members of HUF do not necessarily qualify as “immediate relatives” and hence, gift of shares from the DP to HUF is considered a trade, resulting in a disposal by the DP. This disposal, matched against a previous purchase of shares by the DP in the last six months, constitutes a contra trade.

Having said that, in the absence of the intent of short-term profits, the Compliance Officer may consider granting a waiver, after recording in writing the reasons for the urgency of the transaction and the absence of an intent that is violative of the Regulations.

The subsequent sale of shares by the HUF is matched against the acquisition pursuant to gift, and hence, constitutes contra trade.

- 16. Whether the receipt of shares by a DP, on account of partition of the HUF, attract contra trade restrictions, when matched against a previous disposal transaction in the last six months?**

In case of acquisition of shares from an HUF on account of partition of HUF resulting into distribution of assets, the intent of short-term profits by the DP is not possible. Further, the partition of HUF may be decided mutually between the members, and hence, the timing of such distribution cannot be influenced by the DP to ensure that six months’ period has elapsed between

the previous disposal trade and acquisition pursuant to partition of HUF. Hence, in such cases, while contra trade restriction is applicable, the Compliance Officer may consider granting waiver after recording the reasons in writing.

17. Whether contra trade restriction is applicable in case of transmission of shares?

No, transmission of shares is exempt from contra trade restriction (*Q no. 4 of SEBI FAQs*). Transmission is an involuntary automatic change in the ownership on account of operation of law which is mostly due to death, succession, inheritance, etc. Therefore, contra trade restrictions do not apply to acquisition pursuant to transmission.

Applicability to fiduciaries

18. Whether restriction on execution of contra trade is applicable only to DPs of a listed company or whether it would also apply to the DPs of market intermediaries and other persons who are required to handle UPSI in the course of business operations? ([Q no. 41 of SEBI FAQs](#))

Schedule C of the PIT Regulations prescribe the minimum standards of the Code of Conduct for market intermediaries and fiduciaries. Clause 8 of Schedule C contains contra trade restrictions for market intermediaries and fiduciaries and hence, applicable to them.

19. Whether the PIT Regulations impose contra trade restrictions on DPs in relation to the securities of only the listed entity in relation to which he is a DP or all listed entities since even in the case of intermediaries, the DPs may not have UPSI of all the listed entities?

Contra trade restrictions are applicable only in respect of the securities of such listed entities in whose relation, the fiduciary may have UPSI. The concern on short-swing trades arise on account of a potential access to UPSI, which may result in such speculation. A fiduciary may deal with various listed entities at a time, and hence, the insider trading controls primarily with respect to such entities in whose relation the fiduciary may have access to UPSI.

20. An intermediary maintains a list of restricted securities for which it is handling any assignment and might be privy to any UPSI. Whether the restriction on the intermediary or any of its employees, of not executing a contra trade within six months as provided in clause 10 of Schedule B of PIT Regulations, is applicable on securities which are not in their restricted list?

The contra trade restriction applies only w.r.t. such securities that form part of the restricted list maintained by the fiduciary. As also clarified in the informal guidance provided to [SBI Capital Markets Ltd](#), the contra trade restriction either on the intermediary or any of its employees for trading in securities of the listed companies which are not in the restricted list would depend on the connection that the intermediary or its designated employee has with the concerned listed company and subsequent possession of or access to UPSI.

If the intermediary or its employee is a connected person with a listed company and possess or have access to UPSI, such restriction shall be applicable, while on the other hand, for securities of the listed companies where no connection and possession or access to UPSI is envisaged, there may not be a need to impose the above restriction.

Promoter and Promoter Group

21. If a single promoter has executed a trade, then whether the contra-trade restrictions will apply to it separately or will it apply to the entire promoter group?

As regards contra trade restrictions on promoters and promoter group members, whether the same applies on an individual basis or a collective basis, needs to be examined on a case-to-case basis. Unlike in case of immediate relatives, for promoter group members, the concept of single economic unit does not apply. However, depending on the structure of the promoter group, it might so happen that the members of the promoter group are under a common control or decision-making w.r.t. trading by such members/ entities. Therefore, while generally speaking, the trades need not be seen on a collective basis to determine contra-trade violation (for instance, see Informal Guidance in the matter of [Raghav Commercial Ltd](#) or [Star Cement Ltd](#), etc), depending on the facts and circumstances, the restrictions may apply collectively to the entities (for instance, Informal Guidance in the matter of [Rama Mines \(Mauritius\) Limited](#)¹).

22. SSG Ltd is a listed company with 62% shares held by the promoters and promoter group members. Mr SSG is one of the promoters of SSG Ltd. Further, Mr. RSG is classified as a part of the promoter group, on account of being the relative of Mr. SSG. However, Mr RSG is not in communication with Mr SSG, and is not engaged in the decision-making of SSG Ltd. Mr. RSG holds 92% shares in RSG Pvt Ltd. RSG Pvt Ltd also forms part of the promoter group of SSG Ltd of the Company.

Mr. SSG purchased 2000 shares in SSG Ltd in August 2025. RSG Pvt Ltd sold 100 shares in SSG Ltd in October 2025. Whether the two trades are to be seen on a collective basis for the purpose of ascertaining contra trade restrictions?

No, in our view, the trades are not required to be seen on a collective basis for ascertaining contra trade violation. The trading decisions taken in RSG Pvt Ltd cannot be said to be motivated by any information in possession of Mr SSG, unless there is direct evidence to the contrary, and hence, the trades are not required to be seen on a collective basis.

¹ Our detailed analysis of the same can be referred to in our article [here](#).

Non-applicability or relaxations from contra trade restrictions

Power of Compliance Officer to grant relaxation

23. What is the power available with the Compliance Officer with respect to granting relaxation from the applicability of contra trade restrictions?

Clause 10 of Schedule B contains enabling clause with respect to the power of the Compliance Officer to grant relaxation from the strict enforcement of contra trade restriction, subject to the two conditions, viz,:

- a. The reasons for such relaxation shall be recorded in writing, and
- b. The relaxation shall not result in violation of the Regulations

24. Can such power be exercised by the Compliance Officer even in the absence of any express clause in the CoC of the listed entity?

No, Schedule B merely provides a model CoC and hence, such power would be available to the CO only if the same has been expressly provided by the board of directors of the listed entity through the CoC adopted by such listed entity.

25. Is there any procedure to apply for seeking relaxation from contra trade restrictions?

There is no prescribed procedure under the PIT Regulations, relaxation may be sought in the manner as may be specified by the listed entity through its CoC.

26. What may be the probable reasons for which relaxation from contra trade can be granted by the Compliance Officer?

The relaxation from contra trade restrictions may be given only for *bona fide* transactions, where the intent of short-term profits is absent. The erstwhile 1992 Regulations restricted the scope of waiver to personal emergency only.

In case the sale of securities is necessitated by personal emergency, the holding period may be waived by the compliance officer after recording in writing his/her reasons in this regard.

27. Can waiver from contra trade restrictions be provided in the following cases:

- a. Gift of shares by DP
- b. Sale of shares by DP through open market
- c. Sale of shares by DP through block deal mechanism
- d. Creation of pledge by DP
- e. Release of pledge through sale of shares

Sl. No.	Nature of trade	Can relaxation be granted?
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a.	Gift of shares by DP	Yes, intent of short-term profits may not be there ² , however, while granting the waiver, the CO may impose a restriction on the subsequent disposal by the recipient of such shares acquired pursuant to gift till 6 months from the date of such gift.
b.	Sale of shares by DP through open market	No, mode of sale is not relevant, the reason for such sale is more relevant. Therefore, the DP needs to demonstrate <i>bona fide</i> purpose, based on which the relaxation may be granted.
c.	Sale of shares by DP through block deal mechanism	
d.	Creation of Pledge on shares	Refer discussion under Pledge of shares and contra trade
e.	Release of Pledge on shares	

28. Is it necessary for the Compliance Officer to record the reasons for granting waiver in writing?

The Regulations require recording of reasons in writing before granting a relaxation from contra trade. Maintaining a written record of such reasons would assist the CO in providing the justification for such a decision, should the need arise in future.

29. Can the compliance officer grant relaxation from contra-trade restrictions for purchase of shares?

As discussed in the previous FAQ, relaxations from contra-trade can be granted only in case of exigencies. A sale of shares may be necessitated by a personal exigency, however, it is difficult to think of exigencies that may require a purchase of shares. Having said that, while the erstwhile Regulations specifically referred to ‘sale’ only, the present Regulations do not restrict the power to grant relaxation in case of a sale only. Hence, if the compliance officer grants relaxation for purchase of shares, he/ she may do so with the reasons properly recorded in writing.

30. Can the Compliance Officer grant a post-facto waiver from contra trade restrictions, that is to say, grant a waiver after contra-trade is executed by the Designated Person?

No, the Compliance Officer cannot grant a post - facto waiver from contra trade restrictions. As per clause 10 of Schedule B read with regulation 9 of the PIT Regulations, a waiver may be granted by the Compliance Officer only after recording reasons in writing, prior to execution of trade.

² Para § 240.16b-5 of the General Rules and Regulations also exempts *bona fide* gifts and inheritance from the purview of the restrictions on short-swing trades

Corporate actions

31. Whether contra trade restrictions are applicable where one or more trades is pursuant to a corporate action undertaken by the listed entity?

In case of a corporate action, the option of acquisition/ disposal of securities (depending on the nature of corporate action) is given to all the shareholders or a class thereof in a uniform manner. There is no distinction between DPs and other shareholders. Further, the timing of such trades cannot be controlled by the DPs, though they may choose to participate or not participate in a proposed corporate action. Therefore, the specific trade (acquisition/ disposal) undertaken pursuant to a corporate action is not considered for contra trade, even when, matched against the previous transaction, the same may have resulted in contra trade. However, any opposite trade undertaken post the corporate action is considered as contra trade on account of being a voluntary action on the part of the DP. See examples in next questions.

32. Whether the restriction on execution of contra trade in securities is applicable in case of buy back offers, open offers, rights issues, FPOs, OFS, share split, bonus, exit offers, merger/amalgamation, demerger, etc. by/of listed companies? ([Q no. 39 of SEBI FAQs](#))

Any acquisition of securities by way of Rights issue, Follow-on Public Offer (FPO), Offer for Sale (OFS), Bonus issue, Share Split, Merger/Amalgamation, Demerger, would not attract restriction of 'contra-trade', provided the initial transaction of disposal was completed in accordance with PIT Regulations.

Similarly, any disposal of securities by way of Buy-back, Open offer, Exit offer, Merger/Amalgamation etc. would not attract restriction of 'contra-trade', provided the initial transaction of acquisition was completed in accordance with PIT Regulations.

33. What does the proviso of initial transaction completed in accordance with PIT Regulations mean?

The initial transaction, whether of disposal or acquisition of shares, must be carried out after due compliance with the requirements of the PIT Regulations such as:

- (a) No trading while in possession of UPSI
- (b) Obtaining pre-clearance if the traded volume exceeds the threshold
- (c) No trading during trading window closure
- (d) Disclosure of the trade to the listed entity, unless covered by automated disclosures.

34. In case securities are acquired/disposed of pursuant to rights issue, FPO, buy back offers, open offers, bonus, OFS, share split, merger/amalgamation, demerger etc., whether the contra trade restrictions would apply if such securities are disposed/ acquired through open market trade, before completion of 6 months from the initial date of acquisition/disposal? ([Q no. 40 of SEBI FAQs](#))

If the initial transaction is an acquisition by way of Rights issue, Follow-on Public Offer (FPO), Offer for Sale (OFS), Bonus issue, Share Split, Merger/Amalgamation, Demerger, then subsequent disposal of securities within 6 months from the date of initial transaction would be considered as a contra trade. Similarly, if the securities are disposed through Buy-back or Open offer, then subsequent acquisition of securities within 6 months from the date of initial transaction would be considered as a contra trade.

A summary of the contra trade restrictions in case of corporate actions (Rights issue, Follow-on Public Offer (FPO), Offer for Sale (OFS), Bonus issue, Share Split, Merger/Amalgamation, Demerger):

Transactions (T1 and T2 occur within a period of 6 months)	Remarks
T1 - Disposal of the shares T2 - Acquisition due to corporate action	Not a contra trade
T1 - Acquisition of the shares T2 - Disposal due to corporate action	Not a contra trade
T1 - Acquisition due to corporate action T2 - Disposal of the shares	Contra trade
T1 - Disposal due to corporate action T2 - Acquisition of the shares	Contra trade

35. Whether the DP can trade in the Rights Entitlement if he/ she has earlier acquired the shares of the listed entity Company (within the 6 months period)? ([Q no. 44A of SEBI FAQs](#))

Trading in Rights Entitlements tantamount to open market trade in the securities of the listed entity, since the same is a voluntary act of the DP. Hence, contra trade provisions are applicable on them. Thus, if the DP has earlier acquired the shares of the listed entity and if they sell the Rights Entitlement within a time span of 6 months, it will attract contra trade provisions. Similarly, purchase of Rights Entitlement within 6 months of a previous sale amounts to contra trade.

36. How is the period of 6 months calculated in case of merger/amalgamation, demerger, bonus and split? ([Q no, 40 of SEBI FAQs](#))

The period of 6 months calculated in case of merger/amalgamation, demerger, bonus and split is calculated as follows:

Nature of corporate action	Commencement of six months' period	Example
Merger/ amalgamation	Date of acquisition of securities of the entity(ies), which were merged/amalgamated	Jan 1, 25 - Buy shares of X Ltd (transferor) Mar 10, 25 - Approval for Merger of X Ltd into Y Ltd (transferee) Apr 12, 25 - Allotment of shares of Y Ltd July 10, 25 - Sale of shares of Y Ltd For contra trade, the initial transaction would be purchase of shares of X Ltd, that is, 1st Jan, 25. Hence, not a contra trade.
Demerger	Date of acquisition of the securities of the entity, which was demerged	Jan 1, 25 - Buy shares of X Ltd (demerged co) Mar 10, 25 - Approval for Demerger of an undertaking of X Ltd into Y Ltd (resulting co) Apr 12, 25 - Allotment of shares of Y Ltd July 10, 25 - Sale of shares of Y Ltd For contra trade, the initial transaction would be purchase of shares of X Ltd, that is, 1st Jan, 25. Hence, not a contra trade.
Bonus shares	Date of acquisition of the securities of the entity, on which bonus shares were received	Jan 1, 25 - Buy shares of X Ltd Mar 10, 25 - Bonus issue of 1:1 July 10, 25 - Sale of shares For contra trade, the initial transaction would be purchase of original shares on which bonus shares have been issued, that is, 1st Jan, 25. Hence, not a contra trade.
Share split	Date of acquisition of the securities of the entity, on which split shares were received	Jan 1, 25 - Buy shares of X Ltd Mar 10, 25 - Share split in 1:2 July 10, 25 - Sale of shares For contra trade, the initial transaction would be purchase of original shares on which bonus shares have been issued, that is, 1st Jan, 25. Hence, not a contra trade.

37. Whether the restriction on execution of contra trade in securities is applicable in case of subscription of shares in initial public offer?

A subsequent sale of shares subscribed by a DP as a part of the IPO of the entity amounts to contra trade, if executed within 6 months from the subscription to IPO. This is so because, both subscription to IPO and a subsequent sale thereto amounts as open market trades. This has also been clarified by SEBI in the informal guidance provided to [Kotak Mahindra Bank Limited \(para 4.ii\)](#), that, in such a case, the restrictions apply since neither the PIT Regulations nor the SEBI FAQs provide for an exemption.

The confusion arises since under the 1992 Regulations, the minimum holding period was of 30 days from the allotment of securities, instead of six months.

ESOPs and contra trade

38. Does the contra trade restriction (for a period not less than six months) under clause 10 of Schedule B of the Regulations also apply to the exercise of ESOPs and the sale of shares so acquired? ([Q no. 36 of SEBI FAQs](#))

Schedule B exempts the “exercise” of stock options from contra trade restrictions.

The SEBI FAQs further clarify that, in respect of ESOPs, subscribing, exercising and subsequent sale of shares, so acquired by exercising ESOPs (hereinafter “ESOP shares”), shall not attract contra trade restrictions. Further, if the ESOP shares are sold in multiple transactions, it will not attract contra trade restrictions.

The table below provides for different scenarios involving buy/sale of ESOP shares, elucidating the principles provided above:

Transaction Date – Jan 1, 2025 (A)	Transaction Date – Feb 1, 2025 (B)	Transaction Date – March 1, 2025 (C)	Transaction Date – August 1, 2025 (D)	Transaction Date – September 01, 2025 (E)	Contra Trade (F)
-	ESOPs - Acquire #	ESOPs - Dispose\$	-	-	No, both legs exempt from contra trade restrictions
-	ESOPs - Acquire #	ESOPs - Dispose\$	ESOPs - Dispose\$	-	No, disposal of ESOP shares in multiple

Transaction Date – Jan 1, 2025 (A)	Transaction Date – Feb 1, 2025 (B)	Transaction Date – March 1, 2025 (C)	Transaction Date – August 1, 2025 (D)	Transaction Date – September 01, 2025 (E)	Contra Trade (F)
					tranches do not attract contra trade
-	ESOPs - Acquire #	Market - Acquire@	ESOPs - Dispose\$	-	Yes, Transaction D is contra to C (on account of C being a market purchase in between acquisition and disposal of ESOP shares).
-	ESOPs - Acquire #	ESOPs Dispose\$	Market Acquire@	-	Yes, Transaction D is contra to C (on account of D being a market purchase following sale of ESOP shares).
Market-Dispose@	ESOPs - Acquire #	ESOPs - Dispose\$	-	-	No, market disposal prior to acquisition of ESOP shares not to be considered for contra trade
Market - Acquire @	ESOPs - Acquire #	ESOPs - Dispose\$	-	-	Yes, Transaction C is contra to A.

Transaction Date – Jan 1, 2025 (A)	Transaction Date – Feb 1, 2025 (B)	Transaction Date – March 1, 2025 (C)	Transaction Date – August 1, 2025 (D)	Transaction Date – September 01, 2025 (E)	Contra Trade (F)
Market-Acquire@	ESOPs - Acquire #	ESOPs - Dispose\$	Market-Acquire@	ESOPs - Dispose\$	Yes, Transaction C is contra to A, D is contra to C and E is contra to D.
Non – open Market-Acquire%	ESOPs - Acquire #	ESOPs - Dispose\$	-	-	No

- **ESOPs – Acquire:** Shares acquired through exercising ESOPs

\$ - **ESOPs – Dispose:** Shares disposed, which were acquired through exercising ESOPs.

@ - **Open Market - Acquire/Dispose:** Shares acquired or disposed in open market

% - **Non-Open Market – Acquire -** Shares acquired through corporate actions like Rights Issue, FPO, OFS, Bonus, Split, etc..

39. Whether cashless exercise of ESOPs by the trust for employees who are not DPs, attract contra trade restrictions under PIT Regulations?

Under a cashless exercise of ESOPs through trust route, the employee may, upon exercise, authorise the trust to sell all or such number of shares of the listed entity, as is required to fund the exercise price and perquisite tax on such exercise. After deduction of the same, the benefit is provided to the employees either in cash or in shares, net of the number of shares sold by the trust to fund the exercise of the options.

This cashless exercise of options by the employees and sale of shares by the trust for the purpose of funding of such exercise is not considered as contra trade, as also clarified by SEBI in the [IG in the matter of KPIT Ltd.](#)

40. In case of ESOP funding, will there be any contra trade restrictions?

In case of ESOP funding, the employee gets a loan against the options. Upon receipt of shares pursuant to exercise of options, the employee sells those shares in the market and repays the loan to the lender. In this case, assuming that there is no trade prior to the exercise of options and since the exercise of options is exempt from contra trade, the sale of ESOP shares for funding the exercise will not be considered as contra trade. The IG in the matter of [Welspun Limited](#) also clarifies this stance. Also refer to the discussion under pledge below.

Contra trade on Share warrants

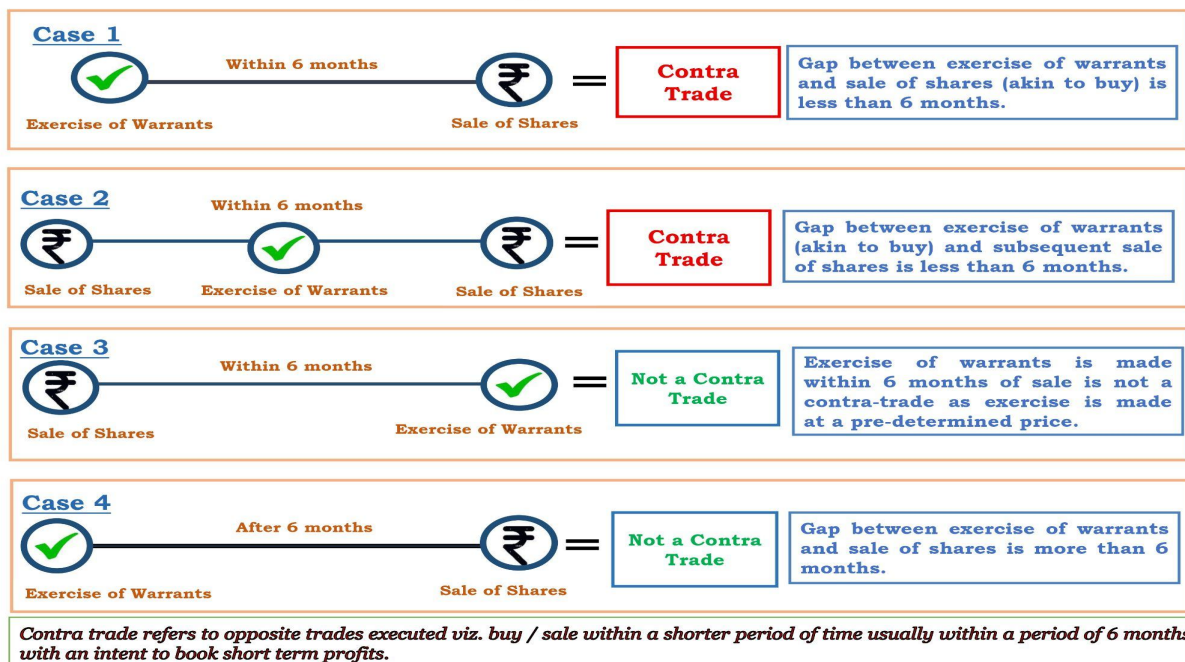
41. What is the applicability of contra trade restriction in case of conversion of warrants?

Warrants are securities that entitle the warrant holder to acquire shares at a future date at a predetermined price. Preferential issue of warrants is not considered as an open market trade, and hence, exempt from contra trade restrictions. However, the subsequent conversion of warrants is a voluntary act by the DP, and the timing can be determined by the warrant holder at its discretion in accordance with the terms of issue (usually a timeline of 18 months is available with the warrant holder). However, the said act of conversion of warrants, is based on a pre-determined price, and hence, exempt from contra trade application. A subsequent sale, would still be considered as violation of contra trade, if undertaken within six months from conversion of warrants into shares.

SEBI in the Informal Guidance in the matter of [Share India Securities Limited](#) under PIT Regulations has clarified the following in relation to conversion of warrants:

- The conversion of warrants into equity shares is not a corporate action as it is not caused due to any action taken by the company. Rather, it is a voluntary act by the warrant holder, who may exercise the warrants anytime within the exercise period.
- The conversion of warrants into shares shall be deemed as acquisition of securities as although the price for conversion of the warrant is fixed upfront, the timing of exercise is as per the discretion of the warrant holder.
- However, such conversion would not attract contra trade, against a previous disposal trade undertaken within 6 months prior to such conversion, since the acquisition trade pursuant to conversion of warrants is executed between the warrant holder and the company at a pre-determined price and at the option of the DP.
- Any subsequent sale transaction made within six months from the date of allotment of equity shares (pursuant to conversion of warrants into equity shares) shall attract the contra-trade restrictions.

Conversion of Warrants & Contra Trades: Decoding the Different Cases



Pledge of shares and contra trade

42. Whether the creation, invocation and release of pledge are considered as trading?

The term trading is defined to include dealing in securities which in turn includes pledge. As per SEBI FAQ No. 1, creation, invocation and release of pledge is considered as trading. Therefore, all the compliance requirements i.e., trading window restrictions, pre-clearance, disclosures, etc. become applicable in case of pledge. Our article - [Pledge as transfer: Several SEBI Regulations may require review post SC Ruling](#) discusses this topic in depth on the basis of the Supreme Court ruling in the matter of [PTC India Financial Services Limited v. Venkateshwar Kari and Another](#).

43. Applicability of contra-trade restrictions on various stages of pledge

The applicability of contra trade restrictions on the various stages of pledge are tabulated hereunder:

- (a) **Creation of pledge:** There is no change of beneficial owner upon creation of pledge. The securities remain in the demat account of the pledgor and are simply locked by the depository, in order to avoid dealing in the said securities by the holder. Although creation of pledge is considered as “trade”, a waiver may be granted by the Compliance Officer.
- (b) **Revocation/ release of pledge:** In case of revocation of pledge, there is no change in beneficial ownership, merely the right of the pledgee to invoke pledge ceases to exist. Hence, the same does not amount to contra trade, as also clarified by SEBI in the [IG in the matter of Welspun Corp Ltd.](#)
- (c) **Notice of invocation of pledge:** There is no dealing in securities in this case, mere notice specifying intent of the pledgee to invoke pledge and sell securities for recovery of dues. Hence, the same does not amount to contra trade.

- (d) **Invocation of pledge:** Invocation of pledge is done by the pledgee upon default. Once a pledge is created, the pledgor has no control over the invocation of such pledge upon default. This certainly should not attract contra trade restrictions as the pawnor cannot control invocation of pledge and therefore, the requirement of seeking a pre-clearance from the Compliance Officer seems a perfunctory requirement. As also clarified by SC in the matter of [*PTC India Financial Services Limited v. Venkateshwar Kari*](#), the pledgee cannot beneficially acquire the pledged shares, the ownership is limited for the purpose of sale of shares and recovery of dues. However, the [*IG in Welspun Corp Ltd*](#) seems to refer otherwise.

In any case, since the “creation of pledge” itself was considered as a “disposal” transaction, no further implications arise.

- (e) **Sale of pledged securities:** Sale of pledged securities is done by the pledgee, and is not under the control of the pledgor. Further, since creation of pledge is itself considered as ‘disposal’, the same shares cannot be considered to have been ‘disposed’ again, upon sale.

44. Whether the revocation or release of pledge on equity shares acquired through exercise of ESOS, followed by their sale in the open market to repay the loan availed for exercising such options, would trigger contra trade restrictions under PIT Regulations?

No, such transactions would not trigger contra trade restrictions. SEBI’s informal guidance in the matter of [*Welspun Corp Limited*](#) also clarifies that the revocation of pledge within six months of its creation will not attract contra trade restrictions, since the beneficial ownership remains unchanged until the pledge is invoked. Such revocation shall be *bonafide* and must be carried out after obtaining pre-clearance from the Compliance Officer.

Trading in Derivatives

A detailed article covering contra-trade restrictions on trading in derivatives can be accessed [here](#).

45. Is trading in derivatives covered by the contra-trade restrictions?

A person cannot undertake insider trading in securities - directly or “indirectly”. Derivatives are defined under Section 2(ac) of the Securities Contracts (Regulation) Act, 1956.

“Derivative”—includes

(A) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security;

(B) a contract which derives its value from the prices, or index of prices, of underlying securities;

(C) commodity derivatives; and

(D) such other instruments as may be declared by the Central Government to be derivatives;

Therefore, trading in derivatives may technically tantamount to trading in underlying securities - indirectly. This is irrespective whether the transaction results in actual delivery or is only net-settled in cash. Further, the definition of “securities” explicitly includes derivatives - hence, there should not be any confusion as to why trading in derivatives of the underlying securities should be excluded from the scope of “trading”.

46. Whether a DP and his immediate relatives can trade in the derivatives of the company? (Q. 52 of [SEBI FAQs](#))

Yes. A designated person and its immediate relative can trade in derivatives when not in possession of UPSI and such trades are accordingly governed by the code of conduct. Unlike the erstwhile PIT Regulations, 1992, there is no blanket prohibition on trading in derivatives for designated employees under the PIT Regulations, 2015.

47. What are the concerns around dealing in derivatives from contra trade perspective?

The tenure of derivatives contracts are usually less than 6 months (typically 1-3 months). And, typically, these derivative transactions in such cases are net-settled before expiry, rather than culminating in actual delivery of securities. Options enable the investors to speculate in shares of higher values and volumes as compared to the cash segment since the only amount payable would be the premium and the net difference in the strike price and spot price later on. Further, cash settlement in derivatives provides a higher leverage to the trader. Hence, the possibility of contra-trade is much higher in case of derivatives as compared to trades in the cash segment.

48. Can a listed entity provide a blanket prohibition against trading in derivatives by the Designated Persons?

Regulation 9(1) of the 2015 Regulations requires every listed entity to adopt its own Code of Conduct by adopting the minimum standards set out in the Schedule without diluting the provisions of the Regulations in any manner. The prohibition on trading in derivatives do not result in dilution of any provisions of the Regulations, and hence, listed entities may, if considered appropriate, include such blanket prohibition.

49. A DP buys a call option which indicates a buy position and sells this option (within a period of 6 months) before the expiry of its tenure which indicates a sell position and is also called net cash settlement. Does this amount to contra trade? (Q. 37 of the [SEBI FAQs](#))

Yes, in this case, the DP has taken opposite positions within 6 months which amounts to contra trade. Purchase of call/ put option by the DP should result in physical settlement in order to be not considered as contra-trade. However, where such a contract is closed before expiry through cash settlement, the same amounts to contra-trade. Globally also, closing of a derivative contract through actual physical settlement is exempt from contra-trade restrictions (Para § 240.16b-3 of the General Rules and Regulations r/w section 16(b) of the SEC Act).

50. In the above example, if the DP does not exercise the option and the option is allowed to expire since the strike price is more than the market price (out-of-the-money option), does this amount to contra trade?

This should not amount to contra trade by itself since no opposite position is taken pursuant to non-exercise of the option. Further, the non-exercise of option does not result into a profit in the hands of the DP, rather, to avoid the losses that are visible in the market, and is not based on

unpublished information available with the DP. There is no cash settlement and profit earning in the hands of the DP³.

51. How can the DP ensure physical settlement in case of writing of options?

In case of writing of options, the option of purchase/ sale remains with the option holder and not the DP. Hence, it is not practically possible for the DPs to ensure physical settlement of the options in case of writing of options.

52. Illustrations to explain contra trade in derivatives

The following table illustrates various situations including the above situations:

S. No	Transaction	Remarks (<i>assuming T1 and T2 happen within a period of 6 months</i>)
1	T1 - Buy call option T2 - Cash settlement	Contra trade. Buying call option is equivalent to a “buy” transaction. Subsequent cash settlement indicates a “sale” transaction.
2	T1 - Buy call option T2 - Physical settlement	Not a Contra trade. Buying call option is equivalent to a “buy” transaction, subsequent physical settlement only results in delivery of such shares.
3	T1 - Buy call option T2 - Expiry of option on account of out-of-the money	Not a Contra trade. Buying call option is equivalent to a “buy” transaction, however, did not result in delivery on account of the strike price > market price at the time of expiry.
2	T1 - Sell call option T2 - Cash settlement	Contra trade. Selling call option is a “sale” transaction. Cash settlement indicates a “buy” transaction.
3	T1 - Buy put option T2 - Cash settlement	Contra trade. Buying put option is a “sale” transaction. Not taking physical delivery of the shares and carrying out cash settlement indicates a “buy” transaction.
4	T1 - Sell put option T2 - Cash settlement	Contra trade. Selling put option is a “buy” transaction. Cash settlement is deemed to be a “sale” transaction.

³ Para § 240.16b-6 of the General Rules and Regulations also provides exemption from physical settlement in such cases.

53. What necessary safeguards may be taken by the Compliance Officer to avoid contra trade violations in case of trading in derivatives?

A derivative transaction that results in cash settlement construes a contra-trade. On the other hand, where physical delivery is taken (although it is not very common to close a derivative contract in physical settlement), the derivative transaction is not considered as a contra-trade (although the same is also to be matched against the previous trade in cash segment). Therefore, in order to ensure that the trade does not result in contra-trade, in case of purchase of options (put/ call) by the DP, pre-clearance may be provided by the Compliance Officer subject to receipt of a declaration that the DP shall necessarily undertake physical settlement of such trades at the maturity date, except in case of an out-of-the-money option.

On the other hand, in case of sale of options (put/ call) by the DP (that is, where the DP is the writer of the option), the physical settlement cannot be guaranteed by the DPs, and chances of contra-trade are higher, as the counterparty (that is, buyer of the option) may choose to have cash settlement before the expiry of the derivative contract. Therefore, in order to obviate the possibility of a contra-trade happening, it might be necessary to completely prohibit sale/writing of options by DPs. This prohibition may be enabled through the Code of Conduct.

Consequences of violations of contra trade restrictions

54. What is the consequence of breaching contra trade restrictions?

If a DP executes contra trade, inadvertently or otherwise, the profits arising out of such trade is required to be disgorged for remittance to the Investor Protection and Education Fund ('IPEF') administered by SEBI. Further, such actions may be taken as specified in the Code of Conduct of listed entity.

Further, in compliance with clause 13 of Schedule B, the entity is required to report the violation of the Code of Conduct to the stock exchange in the manner prescribed under Para 3.2.2 of SEBI circular dated [September 23, 2024](#).

55. Whether penalty can also be imposed by SEBI in case of violation of contra trade restrictions in addition to disgorgement of profits?

Yes, in the [matter of insider trading activity of certain entities in the scrip of Ms. Swan Energy Limited](#), SEBI held that mere disgorgement of profits by DP and non imposition of penalty by the Company on such DP, does not preclude SEBI from imposing additional penalty or from prohibiting such person from accessing the securities market.

- 56. A DP buys shares at Rs. 300 per shares, but sells the shares within 6 months due to exigency at Rs. 200 per shares. Will he be required to disgorge the amount even if he earned no profit?**

In case of exigency, the Compliance Officer is empowered to grant relaxation from the contra trade restrictions prescribed under the Code of Conduct. Where such relaxation has been duly granted, there shall be no violation of the Code of Conduct, and consequently, no obligation shall arise on the DP to disgorge any amount to SEBI for credit to the Investor Protection and Education Fund administered under the SEBI Act.

- 57. How should the profits be disgorged to IPEF? Should the company collect from the DP and transfer to IPEF or instruct the DP to transfer it to the IPEF?**

There is no specific procedure prescribed under the PIT Regulations for the manner of disgorgement of profits. As a matter of practice, the company collects the amount of profit to be disgorged from the concerned person and transfers the said amount to the SEBI for credit to the IEPF administered by SEBI under the SEBI Act, 1992.