

**Consultation Paper on proposed amendments to the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 to rationalize the scope of the expression ‘connected person’, while not increasing compliance requirements**

**1. Objective:**

1.1. To seek comments and inputs from the members of the public on the proposals for amendments to the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations), with the objective to rationalize the scope of the expression ‘connected person’ under the PIT Regulations in order to expand the regulatory scope of PIT Regulations, as follows:

1.1.1. To rationalize the scope of the definition of “connected person” under regulation 2(1)(d) of the PIT Regulations drawing reference from the definition of “related party” under section 2(76) of the Companies Act, 2013 and experience.

1.1.2. To rationalize the definition of “relative” in regulation 2(1)(hc) in line with the definition of relative under Income Tax Act, 1961 and remove the “Note” from the definition of “immediate relative” in regulation 2(1)(f) of PIT Regulations;

1.2. In order to ensure that there is no increase in compliance requirements, the definition of “immediate relative” under regulation 2(1)(f) is proposed to be retained in the PIT Regulations. The requirements for disclosures of trades of ‘immediate relative’ by promoters/directors/designated persons under PIT Regulations, will continue as is. Subsequent to the proposed changes to PIT Regulations, the relevance of the term “immediate relative” in PIT Regulations (*except Chapter-IIA pertaining to mutual funds*) would be limited to disclosures and Code of Conduct under PIT Regulations and no additional requirements for disclosures are being introduced under PIT Regulations. The definition of ‘relative’ is being rationalised only for the purpose of establishing insider trading.

**2. Proposed amendment to the definition of ‘connected persons’.**

2.1. An insider, as defined in regulation 2(1)(g) of PIT Regulations, means any person who is either i) a connected person; or ii) in possession of or having access to Unpublished Price Sensitive Information (‘UPSI’).

2.2. A ‘connected person’ in terms of regulation 2(1)(d) of the PIT Regulations is a person who has a connection with the company that is expected to put him in possession of/ give him access to UPSI. The categories of persons that are ‘deemed to be connected persons’

are such persons who may not seemingly occupy any position in a company but are in regular touch with the company and its officers. It is intended to bring within its ambit those who would have access to or could access UPSI about the company by virtue of any connection that would put them in possession of UPSI.

- 2.3. It has been observed that certain categories of persons who are not covered in the scope of the definition of ‘connected persons’ as per existing regulations, may also be in a position to have access to UPSI from ‘connected persons’ to a company, by virtue of their close relationship with such ‘connected persons’. Such deemed connected persons, owing to their proximity and close relationship with the connected persons, are considered to be in such a position where they can potentially indulge in insider trading.
- 2.4. Therefore, to rationalize the scope of the definition of “connected person”, the following changes, drawing reference from the definition of “related party” from section 2(76) of the Companies Act, 2013 and experience, to the regulation 2(1)(d)(ii) pertaining to ‘deemed connected persons’ are proposed:

**Table 1**

<b>Reg.</b>	<b>Proposed changes / additional categories</b>	<b>Reference</b>
2(1)(d)(ii)(a) (existing)	a relative of ‘connected person’ specified in clause (i)	The term ‘immediate relative’ in regulation 2(1)(d)(ii)(a) is being proposed to be replaced by the term ‘relative’, in line with the definition of relative under Income Tax Act, 1961.
2(1)(d)(ii)(k) (additional category)	a firm or its partner or its employee in which a ‘connected person’ is also a partner;	Reference is drawn from the definition of “related party” in section 2(76) of the Companies Act, 2013.
2(1)(d)(ii)(l) (additional category)	any person on whose advice, directions or instructions a ‘connected person’ is accustomed to act;	
2(1)(d)(ii)(m) (additional category)	a body corporate whose board of directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a ‘connected person’;	
2(1)(d)(ii)(n) (additional category)	persons sharing household or residence with a ‘connected person’;	Based on the experience.
2(1)(d)(ii)(o) (additional category)	persons having material financial relationship with a ‘connected person’ including for reasons of employment or financial dependency or frequent financial transactions;	

2(1)(d)(ii)(p) ( <i>additional category</i> )	a Hindu Undivided Family (HUF) where Karta or any of the member/coparcener is a 'connected person' or a relative of 'connected person'.	
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2.5. When a charge under regulation 4(1) of PIT Regulations is levelled on such deemed connected persons, onus will be cast on such persons to prove that they were not in possession of UPSI, in terms of Regulation 4(2) of PIT Regulations.

2.6. Apart from the aforementioned changes, minor amendments are also proposed in the definition of 'connected person' under regulation 2(1)(d)(i), as mentioned in the table at para 4 of this consultation paper.

### 3. Rationalizing the definition of "relative":

3.1. It is proposed to rationalize the definition of 'relative' vide new regulation 2(1)(hc) of PIT Regulations, in line with the definition of 'relative' under Income Tax Act, 1961.

3.2. Since it is proposed (at para 2.4 above) to substitute the term 'immediate relative' with the term 'relative' in the definition of 'connected person' at regulation 2(1)(d)(ii)(a), the 'Note' to the definition of 'immediate relative' at regulation 2(1)(f) becomes redundant. Accordingly, it is proposed to do away with the 'Note' from the definition of 'immediate relative' at regulation 2(1)(f) of PIT Regulations.

3.3. In order to ensure that there is no increase in compliance requirements, the definition of 'immediate relative' under regulation 2(1)(f) is proposed to be retained in the PIT Regulations. The requirement for disclosures of trades of 'immediate relative' by promoters/directors/designated persons under PIT Regulations will continue to be with respect to 'immediate relative' of promoters/directors/designated persons, as mentioned above to ensure continuance of ease of doing business. The definition of 'relative' is being rationalised only for the purpose of establishing insider trading.

### 4. Proposed amendments to SEBI (PIT) Regulations, 2015

4.1. In order to address the above mentioned issues, the following amendments to SEBI (PIT) Regulations, 2015 are proposed:

**Table 2**

<b>Sl. No</b>	<b>Regulation</b>	<b>Existing Provision</b>	<b>Proposed Amendments</b> (changes highlighted in <b>bold</b> and <i>italics</i> )
4.1.1	2(1)(d)  (existing)	<p>(d) "connected person" means,-</p> <p>(i) any person who is or has during the six months prior to the concerned act been associated with a company, directly or indirectly, in any capacity including by reason of frequent communication with its officers or by being in any contractual, fiduciary or employment relationship or by being a director, officer or an employee of the company or holds any position including a professional or business relationship between himself and the company whether temporary or permanent, that allows such person, directly or indirectly, access to unpublished price sensitive information or is reasonably expected to allow such access.</p> <p>(ii) Without prejudice to the generality of the foregoing, the persons falling within the following categories shall be deemed to be connected persons unless the contrary is established,-</p> <p>(a) an immediate relative of connected persons specified in clause (i); or</p> <p>(b) a holding company or associate company or subsidiary company; or</p> <p>(c) an intermediary as specified in section 12 of the Act or an employee or director thereof; or</p> <p>(d) an investment company, trustee company, asset management company or an</p>	<p>(d) "connected person" means,-</p> <p>(i) any person who is or has <b><i>been</i></b>, during the six months prior to the concerned act, associated with a company; in any capacity, <b><i>directly or indirectly</i></b>, including by reason of frequent communication with its officers or by being in any contractual, fiduciary or employment relationship or by being a director, officer or an employee of the company or holds any position including a professional or business relationship, <b><i>whether temporary or permanent</i></b>, with the company, that allows such <b><i>a</i></b> person, directly or indirectly, access to unpublished price sensitive information or is reasonably expected to allow such access.</p> <p>(ii) Without prejudice to the generality of the foregoing, the persons falling within the following categories shall be deemed to be connected persons unless the contrary is established,-</p> <p>(a) <b><i>a relative</i></b> of connected persons specified in clause (i); or</p> <p>(b) a holding company or associate company or subsidiary company; or</p> <p>(c) an intermediary as specified in section 12 of the Act or an employee or director thereof; or</p> <p>(d) an investment company, trustee company, asset management company or an employee or director thereof; or</p> <p>(e) an official of a stock exchange or of clearing house or corporation; or</p> <p>(f) a member of board of trustees of a mutual fund or a member of the board of directors of the asset management company of a mutual fund or is an employee thereof; or</p> <p>(g) a member of the board of directors or an employee, of a public financial</p>

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		<p>employee or director thereof; or</p> <p>(e) an official of a stock exchange or of clearing house or corporation; or</p> <p>(f) a member of board of trustees of a mutual fund or a member of the board of directors of the asset management company of a mutual fund or is an employee thereof; or</p> <p>(g) a member of the board of directors or an employee, of a public financial institution as defined in section 2 (72) of the Companies Act, 2013; or</p> <p>(h) an official or an employee of a self-regulatory organization recognised or authorized by the Board; or</p> <p>(i) a banker of the company; or</p> <p>(j) a concern, firm, trust, Hindu undivided family, company or association of persons wherein a director of a company or his immediate relative or banker of the company, has more than ten per cent. of the holding or interest;</p> <p><b>NOTE:</b> <i>It is intended that a connected person is one who has a connection with the company that is expected to put him in possession of unpublished price sensitive information. Immediate relatives and other categories of persons specified above are also presumed to be connected persons but such a presumption is a deeming legal fiction and is rebuttable. This definition is also intended to bring into its ambit persons who may not seemingly occupy any position in a</i></p>	<p>institution as defined in section 2 (72) of the Companies Act, 2013; or</p> <p>(h) an official or an employee of a self-regulatory organization recognised or authorized by the Board; or</p> <p>(i) a banker of the company; or</p> <p>(j) a concern, firm, Trust, <del>Hindu undivided family</del>, company or association of persons wherein a director of a company or his <del>immediate</del> relative or banker of the company, has more than ten percent of the holding or interest; <i>or</i></p> <p><b>(k) a firm, its partner or its employee in which a connected person specified in clause (i) is also a partner; or</b></p> <p><b>(l) any person on whose advice, directions or instructions, a connected person specified in clause (i) is accustomed to act; or</b></p> <p><b>(m) a body corporate whose board of directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a connected person specified in clause (i); or</b></p> <p><b>(n) persons sharing household or residence with a connected person specified in clause (i); or</b></p> <p><b>(o) persons having material financial relationship with a connected person specified in clause (i) including for reasons of employment or financial dependency or frequent financial transactions; or</b></p> <p><b>(p) a Hindu Undivided Family (HUF) where Karta or any of the member/coparcener is a connected person specified in clause (i) or a relative of connected persons specified in clause (i).</b></p> <p><b>NOTE:</b> <i>It is intended that a connected person is one who has a connection with the company that is expected to put him in possession of unpublished price sensitive information. <b>Relatives</b> and other</i></p>

Sl. No	Regulation	Existing Provision	Proposed Amendments (changes highlighted in <b>bold</b> and <i>italics</i> )
		<p><i>company but are in regular touch with the company and its officers and are involved in the know of the company's operations. It is intended to bring within its ambit those who would have access to or could access unpublished price sensitive information about any company or class of companies by virtue of any connection that would put them in possession of unpublished price sensitive information.</i></p>	<p><i>categories of persons specified above are also presumed to be connected persons but such a presumption is a deeming legal fiction and is rebuttable. This definition is also intended to bring into its ambit persons who may seemingly <b>not</b> occupy any position in a company but are in regular touch with the company and its officers and are involved in the know of the company's operations. It is intended to bring within its ambit those who would have access to or could access unpublished price sensitive information about any company or class of companies by virtue of any connection that would put them in possession of unpublished price sensitive information.</i></p>
4.1.2	2(1)(hc)  (New)	NIL	<p><b>(hc) "relative" shall mean the following:</b></p> <ul style="list-style-type: none"> <li><b>(i) spouse; or</b></li> <li><b>(ii) sibling(s); or</b></li> <li><b>(iii) sibling(s) of spouse; or</b></li> <li><b>(iv) siblings of parents; or</b></li> <li><b>(v) any lineal ascendant or descendant of the individual or spouse; or</b></li> <li><b>(vi) spouse of the person referred to in sub –regulation (ii) to (v) above</b></li> </ul> <p><b><i>NOTE: It is intended that the relatives of a "connected person" too become connected persons for the purpose of these regulations. It is a rebuttable presumption that a connected person had UPSI.</i></b></p>



Sl. No	Regulation	Existing Provision	Proposed Amendments (changes highlighted in <b>bold</b> and <i>italics</i> )
4.1.3	2(1)(f) (existing)	<p>(f) “immediate relative” means a spouse of a person, and includes parent, sibling, and child of such person or of the spouse, any of whom is either dependent financially on such person, or consults such person in taking decisions relating to trading in securities;</p> <p><i><b>NOTE:</b> It is intended that the immediate relatives of a “connected person” too become connected persons for purposes of these regulations. Indeed, this is a rebuttable presumption.</i></p>	<p>(f) “immediate relative” means a spouse of a person, and includes <b>a</b> parent, sibling, and child of such person or of the spouse, any of whom is either dependent financially on such person or consults such person in taking decisions relating to trading in securities;</p> <p><del><i><b>NOTE:</b> It is intended that the immediate relatives of a “connected person” too become connected persons for purposes of these regulations. Indeed, this is a rebuttable presumption.</i></del></p>

## 5. Public comments

5.1. Comments from public are invited on the following:

- 5.1.1. Whether you agree with the proposed amendment to the definition of ‘connected person’ as mentioned at Sr. No. 4.1.1 in Table 2 of Consultation Paper? Provide rationale.
- 5.1.2. Whether you agree with the proposed definition of ‘relative’ as mentioned at Sr. No. 4.1.2 in Table 2 of Consultation Paper? Provide rationale.
- 5.1.3. Whether you agree with the proposed removal of “**NOTE**” to the definition of ‘immediate relative’ as mentioned at Sr. No. 4.1.3 in Table 2 of Consultation Paper? Provide rationale.

5.2. The comments along with rationale may be submitted by any of the following modes latest by **August 18, 2024**:

5.2.1. **Preferably through online mode at the following link:**

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

The instructions to submit comments through online mode are as under:

**GENERAL INSTRUCTIONS:**

1. Please read and understand the proposal in the consultation paper you are commenting on. Please be concise but support your rationale in the comments;
2. Clearly identify the issues on which you are commenting. If you are commenting on a particular word phrase or sentence, provide the page number, column and paragraph citation from the consultation paper.
3. The comment process is not a vote. The Board is attempting to formulate the best policy, so when crafting a comment, it is important that you adequately explain the reasoning behind your position.
4. If you choose to disagree with any of the proposal, kindly provide your comments and rationale for your disagreement. Please note that the disagreement without any comments/ rationale may not be considered.

**PROCEDURAL INSTRUCTIONS:**

5. There will be a dropdown of multiple proposals in the form after selection of the relevant consultation paper. Select the proposals one-by-one beginning with the first proposal and moving on to 2nd, 3rd and so on. For each of the proposal, please record your level of agreement and provide your comments, if any, followed by clicking on the "Submit" button.
6. If you want to skip any particular proposal(s) in between, you may do so by selecting the "Skip this proposal" option and clicking on the "Submit" button. With each click on "Submit" button, the system saves your response and prompt you to respond to the next proposal.
7. The updated list of saved responses/ proposal numbers may be seen on the top of the screen which gets updated with every click on the "Submit" button.
8. Please note that the comments shall be submitted to SEBI only after saving your response on all of the proposals. Post submission of comments, a message as "Thank you for submitting your comments" shall appear on the screen indicating the successful submission.
9. Please do not click the "back" button or do not "refresh" your screen during the process as it may lead to loss of saved comments;
10. Please note that the e-form shall not accept any type of special characters such as ( ) { } [ ] ~ ! @ # \$ % ^ & \* etc. in comments/ rationale section. It shall also not allow to paste the comments/ rationale copied from any other source.
11. Please download the pdf file, link of which is given at the bottom of the form, just before finally submitting the comments to last and final proposal. This pdf file will help as back-up in case technical issue is faced while final submission of comments.

In case of any technical issue in submitting your comment through web based public comments form, you may email your comment(s) to [pitnew@sebi.gov.in](mailto:pitnew@sebi.gov.in). While sending the email, kindly mention the subject as **“Comments on proposed amendments to the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 to rationalize the scope of the expression ‘connected person’, while not increasing compliance requirements”**.

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