

Date: October 17, 2016

To

Securities & Exchange Board of India
Stock Broker Division
Market Intermediaries Regulation and Supervision Department (MIRSD)
SEBI Bhawan, Bandra Kula Complex, Bandra East
Mumbai - 400051

Dear Sir,

Sub: Request for Interpretive letter under SEBI (Informal Guidance) Scheme, 2003 in connection with removal of doubts on certain provisions of SEBI (Prohibition of Insider Trading) Regulations, 2015.

Prabhudas Lilladher Pvt Ltd seek guidance from Securities and Exchange Board of India by way of Interpretive Letter under paragraph 5.ii. of SEBI (Informal Guidance) Scheme, 2003.

Your valuable guidance is sought for interpreting the following Regulations/Sub-Regulations of SEBI Prohibition of Insider Trading) Regulations, 2015 (hereinafter referred as "the Regulation").

Our Interpretations given below may be deemed to be our views/reflections with a due request to SEBI to guide us in the matter.

A. Definitions 2 (1) (d) (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, -*

(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;

Our Interpretation

The term "Connected persons" is defined with reference to possession of "Unpublished Price Sensitive information (UPSI)"

2 (1) (d) (ii) (j) refers to a concern, firm, trust, Hindu undivided family, company or association of persons where any one of the following persons has more than ten per cent holding or interest:

- "director of a listed company" or
- "immediate relative of the director of a listed company or
- "banker of the listed company"



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CIN: U67190MH1983PTC029670 Compliance Officer: **Mr. A. Subrahmanian** | Email: asubrahmanian@plindia.com

SEBI REGN No.: BSE (Cash/F&O) INB/F 010502855, NSE (Cash/F&O/Currency Derivatives) INB/F/E 230597738, MCX-SX (Cash/F&O/Currency Derivatives) INB/F/E 260597738, CDSL: IN-DP-CDSL-14-99, DP ID - 12011300, NSDL: IN-DP-NSDL-329-2010, DP ID - IN303868, PMS - INP000001231, AMFI ARN - 3276

The above definition under **2 (1) (d) (ii) (j)** shall not include directors of an Unlisted Market Intermediary, his immediate relative or banker of the Unlisted Market Intermediary.

B. Definitions 2 (i) : "securities" shall have the meaning assigned to it under the Securities Contracts (Regulation) Act, 1956 (42 of 1956) or any modification thereof except units of a mutual fund;

Our Interpretation

Certain bonds can also be exempted from the definition subject to no UPSI is attracted inherently on such bonds.

C. Regulation 9 (1):

9. (1) The board of directors of every listed company and market intermediary shall formulate a code of conduct to regulate, monitor and report trading by its employees and other connected persons towards achieving compliance with these regulations, adopting the minimum standards set out in Schedule B to these regulations, without diluting the provisions of these regulations in any manner.

NOTE: It is intended that every company whose securities are listed on stock exchanges and every market intermediary registered with SEBI is mandatorily required to formulate a code of conduct governing trading by its employees. The standards set out in the schedule are required to be addressed by such code of conduct.

Item No. 3 of Schedule B:

3. Employees and connected persons designated on the basis of their functional role ("designated persons") in the organisation shall be governed by an internal code of conduct governing dealing in securities. The board of directors shall in consultation with the compliance officer specify the designated persons to be covered by such code on the basis of their role and function in the organisation. Due regard shall be had to the access that such role and function would provide to unpublished price sensitive information in addition to seniority and professional designation.

Our Interpretation:

Seniority and professional designation coupled with access to UPSI will make a person eligible to be identified as "Designated Person". The Code of Conduct to be framed under the Regulation shall apply only to such "Designated Persons". Monitoring trades/deals of Non-designated persons is purely optional.



D. Item No.10 of Schedule B:

10. 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. The compliance officer may be empowered to grant relaxation from strict application of such restriction for reasons to be recorded in writing provided that such relaxation does not violate these regulations. Should a contra trade be executed, inadvertently or otherwise, in violation of such a restriction, the profits from such trade shall be liable to be disgorged for remittance to the Board for credit to the Investor Protection and Education Fund administered by the Board under the Act.

The guidance note issued by SEBI on August 24, 2015 covered ESOPS and Contra Trade in Derivatives. Further, it clarified that restriction of 'contra-trade' shall not apply in respect of buy back offers, open offers, rights issues, FPOs, bonus, [exit offers] etc.

Our Interpretation:

The term "Contra Trade" is not defined under the Regulations.

Contra trade would mean (a) selling/pledging a security within 6 months of its purchase and (b) buy the same security within 6 months of its sale.

The Applicability of Contra Trade restriction to the Deals/Trades by "designated person" of Market Intermediary can be summarised in the table 1 as below:

Table 1

Sl	Status of Market Intermediary (MI)	Deals/Trades in Securities by "designated persons" of MI	Whether 6 months Contra Trade Restriction Applicable
(i)	Listed company	In own Company	Yes
		In other Listed Companies	No
(ii)	Holding company or Associate company or Subsidiary company of a Listed company	In listed Group Company	Yes
		In listed Companies other than the listed Group Company	No
(iii)	Entities other than (i) & (ii) above	In all Listed Companies	No

Similar interpretation can be made for investment by designated persons of Market Intermediary in Portfolio Management Scheme.



E. The guidance note issued by SEBI on August 24, 2015 mentioned as below:

11. If a spouse is financially independent and does not consult an insider while taking trading decisions, is that spouse exempted from the definition of 'immediate relative'?

Guidance: A spouse is presumed to be an 'immediate relative', unless rebutted so.

Our Interpretation:

The spouse (of the Employee of the Market Intermediary) who is financially independent and does not consult the Employee while taking trading decisions may declare his position as such in writing to the Market Intermediary. Based on such declaration, the Market Intermediary may exclude such person from the purview of the Code of Conduct for Employee Trading (as framed by the Market Intermediary under the Regulation).

F. SEBI (Prohibition of Insider Trading) Regulations, 1992 (now repealed)

The repealed Regulations specified separate Model Code of Conduct for Listed Companies and Other Entities). Item no. 5.2 & 5.3 of the Model Code of Conduct for "Other Entities" read as below:

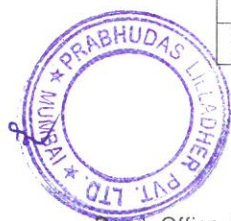
5.2 All directors/officers/designated employees/partners shall hold their investments for a minimum period of 30 days in order to be considered as being held for investment purposes. 5.3 The holding period shall also apply to purchases in the primary market (IPOs). In the case of IPOs, the holding period would commence when the securities are actually allotted.

Our Interpretation:

Market Intermediaries as specified below may frame a code of conduct for employee trading which may include a provision for a minimum holding period of 30 days for securities in order to be considered as being held for investment purposes. The Applicability of minimum holding period on deals/trades by "employee" of Market Intermediary can be summarised in the following table 2 as below:

Table 2

Sl	Status of Market Intermediary (MI)	Deals/Trades in securities "designated persons" of MI	Whether Minimum holding period of 30 days applicable
(a)	Listed company	In other Listed Companies	Yes
(b)	Holding company or Associate company or Subsidiary company a Listed company	In listed Companies other than listed Group Company	Yes
(c)	Entities other than (a) & (b)	In all Listed Companies	Yes



We request you to kindly send us an interpretative letter for the following:

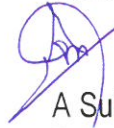
- (i) Whether Regulation 2 (1) (d) (ii) (j) is applicable to the directors of an unlisted Market Intermediary or his immediate relative or bankers of an unlisted Market Intermediary.
- (ii) Whether certain bonds can also be exempted from the definition subject to no UPSI attracted inherently on such bonds.
- (iii) Whether a Senior Professional who does not have access to UPSI can request the Compliance Officer for exclusion as "designated person" under the Code of Conduct specified in Schedule B. Whether the burden of proof on "Non-access to UPSI" lies with such Senior Professional or with the Compliance Officer and the Board of Directors who accorded such exclusion.
- (iv) Whether Contra Trade would mean (a) selling a security within 6 months of its purchase and (b) buying the same security within 6 months of its sale. Whether our interpretation under Table 1 is correct. If yes, can it leads to a situation that the "Contra Trade" restriction is not applicable to a Market Intermediary who is not a listed company and may result in any dilution of the provisions of Regulation 9 (1) and Item no. 3 & 10 of Schedule B.
- (v) Whether our interpretation under Table 1 can be applied to Investment by "Designated persons" in Portfolio Management Scheme also.
- (vi) Whether a "rebut" by spouse of an "employee"/ "designated person" through written declaration, is sufficient enough for the Market Intermediary to exclude such spouse from the purview of the Code of Conduct for Employee Trading.
- (vii) Whether Market Intermediary may prescribe a lower holding period less than 6 months (say one week, one month, etc) to "designated persons" under situation given in Table 2 and therefore do not result in any dilution of the provisions of Regulation 9 (1) and Item no. 3 & 10 of Schedule B.

We hereby enclose a Cheque for the prescribed fee of Rs. 25,000/-

The informal guidance may be kept confidential for 90 days.

Yours Faithfully,

For Prabhudas Lilladher Pvt Ltd



A Subrahmanian
President Operations & Compliance Officer

TECPAYEE ONLY

ICICI Bank

Drawee Branch

(04)NARIMAN POINT, MUMBAI 400021

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Sushant Paralkar

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P-2784

Pooja Gulati

Pooja Gulati

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