SECURITIES AND EXCHANGE BOARD OF INDIA

PROPOSED AMENDMENTS TO THE SEBI (PROHIBITION OF INSIDER TRADING) REGULATIONS, 2015

1. Objective

The objective of this memorandum is to place a proposal for amendment to regulation 7D.(1) and 7D.(3) relating to informant reward under SEBI (Prohibition of Insider Trading) Regulations, 2015 (hereinafter, referred to as the PIT Regulations).

2. Background

The informant mechanism for reporting alleged violations of provisions of PIT Regulations has been put in place to incentivize people having independent knowledge of any incidence of insider trading to report the same to SEBI. On the basis of the experience gained since the introduction of the mechanism, certain amendments are suggested. The objectives of the suggested amendments are to streamline the process of reward payment, enhance the quantum and certainty of reward with an intent to make the mechanism more effective and to better serve the purpose that was envisaged at the time of introduction of the mechanism.

3. Proposed amendments relating to Informant Reward

The proposed amendments to regulation 7D of the PIT Regulations and the rationale thereof is as follows:

3.1 <u>Regulation 7D.(1)</u>

3.1.1 Regulations 7D.(1), inter alia, provides the quantum of interim/final reward payable to an informant.

3.1.2 In order to bring more certainty to the quantum of reward and to further incentivize informants, the following is proposed:

3.1.2.1 The maximum amount of reward may be increased from Rupees One crore to Rupees Ten crores.

3.1.2.2 If the total reward payable is less than or equal to Rupees one crore, the Board may grant such reward upon the issuance of the final order.

3.1.2.3 Further, where the total reward payable is more than Rupees one crore, the Board may grant an interim reward not exceeding Rupees one crore upon the issuance of a final order and the remaining reward amount shall be granted only upon receipt of the monetary sanctions amounting to at least twice the balance reward amount payable by the Board.

3.2 Regulation 7D.(3)

3.2.1 The relevant provision under Regulation 7D.(3) is as follows:

"The Reward under these regulations shall be paid from the Investor Protection and Education Fund".

3.2.2 The aforesaid regulation does not explicitly specify any reward, whether interim or otherwise. In order to bring more clarity, it is proposed to amend Regulation 7D.(3) of PIT Regulations, as follows.

"Any reward, whether interim or otherwise, under these regulations shall be paid from the Investor Protection and Education Fund".

3.3 A table of illustration of the reward amounts payable under different scenarios is placed as Annexure A**.** The table shall be suitably incorporated in the proposed amendments or disclosed as Frequently Asked Questions (FAQs) on SEBI website.

4. Proposal

The Board is requested to consider and approve the proposals at para 3 of this memorandum and approve the draft amendments/notification placed at Annexure B. The Board is also requested to authorize the Chairman to take such consequential and incidental steps necessary to give effect to the decisions of the Board.

Annexure A

Scenario Analysis - Payment of Reward

(Amounts in Rs. Crore)

A.	**Monetary Sanctions (Amount Rupees Crores)**	**≥ 100.00**	**20.00**	**10.00**	**5.00**	**1.00**
B.	Total Reward Payable **= 10% of Monetary Sanctions subject to maximum of Rupees 10.0 crores.**	10.00	2.00	1.00	0.50	0.10
C.	Maximum Amount Payable as Interim Reward (on the issuance of final order by the Board against the person directed to disgorge) **= Total Reward Payable (B) or Rupees 1.00 Crore, whichever is less.**	1.00	1.00			
D.	Balance Amount of Reward Payable (B - C).	9.00	1.00	NIL (because the entire reward was paid after passing of final order)		
E.	Minimum Amount to be collected / recovered by SEBI, for balance amount of reward (D) to become payable **= Twice the Balance Amount of Reward Payable (2 x D).**	18.00	2.00	N.A.*	N.A.*	N.A.*

N.A.*: Not Applicable as the amount of interim reward itself is equal to total eligible reward.

Annexure B

THE GAZETTE OF INDIA

EXTRAORDINARY

PART – III – SECTION 4

PUBLISHED BY AUTHORITY

SECURITIES AND EXCHANGE BOARD OF INDIA

NOTIFICATION

Mumbai, the ____________, 2021

SECURITIES AND EXCHANGE BOARD OF INDIA (PROHIBITION OF INSIDER TRADING) (SECOND AMENDMENT) REGULATIONS, 2021

No. SEBI/LAD-NRO/GN/2021/_____ ─ In exercise of the powers conferred under section 30 read with clause (g) of sub-section (2) of section 11 and clauses (d) and (e) of section 12A of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Board hereby makes the following regulations to amend the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, namely: –

1. These regulations may be called the Securities and Exchange Board of India (Prohibition of Insider Trading) (Second Amendment) Regulations, 2021.

2. They shall come into force on the date of their publication in the Official Gazette.

3. In the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, ─

(1) in regulation 7D,

(a) in sub-regulation (1),

(i) the words "Upon collection or substantial recovery of the monetary sanctions amounting to at least twice the Reward, the" shall be substituted with the word "The";

(ii) in the first proviso,

(A) the words "collected or recovered" shall be omitted;

(B) the words "one crore" shall be substituted with the words "ten crores";

(iii) the second proviso shall be omitted;

(b) after sub-regulation (1), a new sub-regulation (1A) shall be inserted, namely

"(1A) If the total reward declared is less than or equal to Rupees one crore, the Board may grant such reward upon the issuance of the final order:

Provided that where the total reward declared is more than Rupees one crore, the Board may grant an interim reward not exceeding Rupees one crore upon the issuance of a final order and the remaining reward amount shall be granted only upon receipt of the monetary sanctions amounting to at least twice the remaining reward amount declared by the Board."

(c) in sub-regulation (3) the words "The reward" shall be substituted with the words "Any reward, whether interim or otherwise,";

AJAY TYAGI

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA

Footnotes:

1. The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 was published in the Gazette of India on January 15, 2015 vide No. LAD-NRO/GN/2014-15/21/85.

2. The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 was subsequently amended on, -

i. December 31, 2018 by the Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2018 vide No. SEBI/LAD-NRO/GN/ 2018/59.

ii. January 21, 2019 by the Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2019 vide No. SEBI/LAD-NRO/GN/ 2019/02.

iii. July 25, 2019 by the Securities and Exchange Board of India (Prohibition of Insider Trading) (Second Amendment) Regulations, 2019 vide No. SEBI/LAD-NRO/GN/ 2019/23.

iv. September 17, 2019 by the Securities and Exchange Board of India (Prohibition of Insider Trading) (Third Amendment) Regulations, 2019 vide No. SEBI/LAD-NRO/GN/ 2019/32.

v. July 17, 2020 by the Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2020 vide No. SEBI/LAD-NRO/GN/ 2020/23.

vi. October 29, 2020 by the Securities and Exchange Board of India (Prohibition of Insider Trading) (Second Amendment) Regulations, 2020 vide No. SEBI/LAD-NRO/GN/ 2020/38.

vii. April 26, 2021 by the Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2021 vide No. SEBI/LAD-NRO/GN/ 2021/17.

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