



**Consultation Paper on applicability of SEBI (Prohibition of Insider Trading),
Regulations, 2015 to Mutual Fund (MF) units**

1. Objective

The objective of this consultation paper is to solicit public comments / views on the proposal to cover dealing in units of Mutual Funds under SEBI (Prohibition of Insider Trading), Regulations, 2015 (“PIT Regulations”) so as to harmonize the regulations governing trading in securities, while in possession of Unpublished Price Sensitive Information (UPSI).

2. Background

- 2.1. In the past, it was observed that a Registrar and Transfer Agent of a Mutual Fund had redeemed all its units from a scheme, being privy to certain sensitive information pertaining to scheme of Mutual Fund, which was not yet communicated to the unit holders of a particular scheme. Similarly, in another instance, a few key personnel of a Mutual Fund were found to have redeemed their holdings in the schemes, while in possession of certain sensitive information not communicated to the unit holders of the schemes. PIT Regulations are applicable to dealing in securities, of listed company or proposed to be listed, when in possession of UPSI . The units of mutual funds are specifically excluded from the definition of securities under PIT Regulations.
- 2.2. However, it may be noted that SEBI vide circulars dated May 08, 2001, June 20, 2002, July 11, 2003, December 15, 2009 and May 22, 2014 imposed conditions for investments/trading in securities by employees of Asset Management Companies (AMC(s)) and Trustees of Mutual Funds, which were consolidated and modified vide SEBI Circular dated November 17, 2016 and later vide circular dated October 28, 2021. With respect to transactions by employees of AMCs/Trustees in Mutual Fund units, the said circulars *inter-alia* require reporting of such transactions to the Compliance Officer and also place restrictions on periods during which such employees cannot transact in the units of concerned Mutual Fund schemes.
- 2.3. Circular dated October 28, 2021, introduced certain provisions to emphasize the underlying principle by stating that employees of AMC(s), Board members of AMC(s) and Board members of Trustees, including Access Persons (as defined in the said Circular) shall not transact in any scheme, while in possession of certain sensitive information, which was not communicated to the unit holders of the schemes and which could materially impact the NAV or interest of unit holders. The said circular provides for inclusive list of events, where such restriction applies.
- 2.4. Clause (d) and (e) of Section 12A of SEBI Act, 1992 prohibits “any person” to directly and indirectly engage in insider trading and deal in securities, while in possession of



material or non-public information or communicate such material or non-public information to any other person, in a manner which is in contravention of the provisions of the SEBI Act, 1992 or the rules or the regulations made thereunder.

However, the units of mutual funds are specifically excluded from the purview of PIT Regulations. A need has, therefore, been felt to harmonise the provisions in PIT Regulations to initiate serious enforcement actions against those who misuse the sensitive non-public information pertaining to scheme of Mutual fund, directly or indirectly, which they have access, by virtue of their fiduciary capacity.

2.5. At the same time, it is also felt that the regulatory approach should not be onerous. For instance, though a person may possess an UPSI pertaining to a security, he may not have the knowledge of the existing portfolio of the Mutual Fund scheme or have any control over the fund manager's decision. Accordingly, it is considered to include a separate chapter in PIT Regulations, specifically to cover transactions in the units of Mutual Fund schemes, both close ended and open ended, so as to avoid complexities and such unintended consequences.

3. Issues under consideration:

In order to consider the views of various stakeholders, public comments are invited on the following proposals:

3.1. **Definition of Securities:** The words "except units of a mutual fund" in Regulation 2 sub-regulation (1) of clause (i) of PIT Regulations are proposed to be omitted;

3.2. **Definition of Trading:** Regulation 2 (1) (I) is proposed to be amended as follows: "trading" means and includes subscribing, redeeming, switching, buying, selling, dealing, or agreeing to subscribe, redeem, switch, buy, sell, deal, in any securities, and "trade" shall be construed accordingly".

3.3. **Applicability of PIT Regulations to Units:** After sub-regulation (2) to Regulation 2, following is proposed to be inserted:

"(3) With respect to dealing in the units of a Mutual Fund, only the provisions of Chapter IIA, IIIA and V are applicable;

3.4. **Separate Chapter** "Chapter IIA" titling "**Restrictions on communication in relation to, and trading by insiders in, the units of mutual funds**" proposed to be inserted which is exclusively applicable to units of Mutual Funds.



3.5. Definition of important terms:

3.5.1. Definition of Insider:

“Insider” means any person who is:

- I. a connected person; or
- II. in possession of or having access to unpublished price sensitive information pertaining to a scheme of Mutual Fund.

3.5.2. Definition of Unpublished Price Sensitive Information (UPSI):

With respect to trading in Mutual Fund units, it is proposed to define Unpublished price sensitive information as any information pertaining to a scheme of a Mutual Fund which is not yet generally available and which could materially impact the Net Asset Value or materially affect the interest of unit holders, which shall include the instances where there is a likelihood of:

- i. a change in the investment objectives of the concerned Mutual Fund Scheme(s);
- ii. a change in the accounting policy;
- iii. a material change in the valuation of any asset, or class of assets;
- iv. conversion of a close ended scheme to an open-ended scheme or an open-ended scheme to a close ended scheme;
- v. restrictions on redemptions, winding up of scheme(s);
- vi. creation of segregated portfolio;
- vii. swing pricing framework will be triggered and swing factor will be made applicable;
- viii. material change in the liquidity position of the concerned Mutual Fund Scheme(s)
- ix. default in the underlying securities which is material to the concerned Mutual Fund Scheme(s) etc.”

Question for public comments – :

Whether the proposed definition need to be modified? If so, reasons thereof?

3.5.3. Definition of "Generally available information": With respect to Mutual Fund units, it is proposed to define Generally available information as information that is made available to the unitholders or made accessible to the public on a non-discriminatory basis on an independent platform/(s) as specified by SEBI, including the platform of the Stock Exchanges.

Question for public comments – :

Comments are sought as to whether such independent platforms shall be the platform owned by AMFI or platforms collectively owned by all AMCs (like MFU) or be the stock exchange platforms (It may be noted that there is no compulsion to list



units of open-ended schemes which constitute 98% of the AUM of the MF industry on the Stock Exchange. However, units of the Mutual Funds are also transacted on the platforms of the stock exchanges).

3.5.4. Definition of Connected person:

With respect to Mutual Funds, it is proposed to define "Connected person" as,-

- (i) any person who is or has during the two months prior to the concerned act been associated with the Mutual Fund, AMC and Trustees, 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 AMC and Trustee or holds any position including a professional or business relationship between himself and the MF/AMC/Trustees, 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;
- (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,
 - (a) an immediate relative of connected persons specified in clause (i); or any other person for whom such person takes trading decisions or
 - (b) Sponsor, holding company or associate company or group company or subsidiary company of the Sponsor or Asset Management Company and Trustees; or
 - (c) Board of Directors and key management personnel of Sponsor of the Mutual Fund;
 - (d) Registrar and Share Transfer Agents, Custodians or Valuation Agencies of the Mutual Fund or its directors or its key management personnel or its employees handling activities relating to concerned Mutual Fund; or
 - (e) an official or an employee of Fund Accountant providing services to a Mutual Fund, or
 - (f) an official or an employee of Association of Mutual Fund of India. or
 - (g) an official or an employee of a self-regulatory organization recognised or authorized by the Board; or
 - (h) an official of a stock exchange or such other independent platforms as specified by SEBI for dissemination of information; or
 - (i) Auditor, Legal Advisor or Consultants of the Mutual Fund or Asset Management Company; or
 - (j) an official or an employee of a Credit Rating Agency; or
 - (k) an intermediary as specified in section 12 of the Act or an employee or director thereof; or
 - (l) a banker of the Mutual Fund or Asset Management Company; or
 - (m) a concern, firm, trust, Hindu undivided family, company or association of persons wherein a director of an Asset Management Company and Trustees;



or his immediate relative or banker of the company, has more than ten per cent of the holding or interest;

Question for public comments – :

Whether the proposed definition need to be modified? If so, reasons thereof?

3.5.5. Designated Persons:

With respect to Mutual Funds, it is proposed to define " Designated Persons" to include the Head of the Asset Management Company (designated as CEO/Managing Director/President or by any other name), Directors of the Asset Management Company or the Trustee Company, Chief Investment Officer, Chief Risk Officer, Chief Operation Officer, Chief Information Security Officer, Fund Managers, Dealers, Research Analysts, all employees in the Fund Operations Department, Compliance Officer and Heads of all divisions and/or departments or any other employee as designated by the Asset Management Company and/or Trustees.

Question for public comments – :

Whether the proposed definition need to be modified? If so, reasons thereof?

3.5.6. "Systematic Transactions": It is proposed to define Systematic Transactions in units of a Mutual Fund as those transactions which are automatically triggered for execution on a periodical basis as instructed by the investor such as Systematic Investment Plan (SIP), Systematic Transfer Plan (STP), Systematic Withdrawal Plan (SWP) etc.

Question for public comments – :

Whether the proposed definition need to be modified? If so, reasons thereof?

3.5.7. Legitimate purposes

It is proposed to specify that the board of directors of an AMC, shall with the approval of the Trustees, make a policy for determination of "legitimate purposes".

Explanation – For the purpose of illustration, the term "legitimate purpose" shall include sharing of unpublished price sensitive information in the ordinary course of business by an insider with Trustees, Registrars and Share Transfer Agents, Custodians, Valuation Agencies, Fund Accountants, Association of Mutual Funds of India, Credit Rating Agencies, legal advisors, auditors or other advisors or consultants, provided that such sharing has not been carried out to evade or circumvent the prohibitions of these regulations.



3.5.8. It is proposed to make all other definition in chapter-I, *ipso facto*, be applicable to transactions in the units of Mutual Funds.

Question for public comments –

Whether there are any comments/suggestions with respect to Para 3.5.7 and 3.5.8?

3.6. Defenses available to an insider

The insider may prove his innocence by demonstrating the circumstances including the following: –

- (i) the transaction is an off-market inter-se transfer between insiders who were in possession of the same unpublished price sensitive information and both parties had made a conscious and informed trade decision;
- (ii) such transaction in question was carried out pursuant to a statutory or regulatory obligation including subscription/investment in Mutual Fund units pursuant to mandatory requirement prescribed by SEBI for “Alignment of interest of Designated Employees of Asset Management Companies with the Unit holders of the Mutual Fund Schemes”;
- (iii) such transaction in question is triggered by Systematic plans, where such Systematic plans are registered at least sixty days prior to such transaction or triggered by irrevocable Trading plans, where such plan has been approved by Compliance Officer and disclosed on an independent platform as decided by SEBI, at least sixty days before the commencement of trades;

Provided that the trading period for each plan shall be at least six months with no overlapping of different trading plans.

Provided further that for the trading as per approved plan, no requirements/norms related to pre-clearance of trading or closure period or contra trade shall be applicable.

Question for public comments –:

Whether the above defenses are appropriate? Any inclusion or exclusion is required?

3.7. Reporting of transactions in MF units by designated persons

It is proposed to make AMC disclose the details of holdings in the units of the Mutual Fund schemes held by the Designated Persons of AMC /Trustees, their immediate relatives and any other person for whom such person takes trading decisions on an



independent platform and on the date as specified by SEBI and to require disclosures on quarterly basis thereafter.

Further, it is proposed to make it mandatory to report all the tradings of Mutual Fund units executed by the Designated Persons of AMC /Trustees, their immediate relatives and by any other person for whom such person takes trading decisions to the Compliance Officer of AMC within 7 calendar days from the date of transaction and to specify that all such transactions above value of Rupees Ten Lakhs are to be disclosed by the AMC on an independent platform as decided by SEBI within 48 hours of receipt of the same;

In case of systematic transactions through any Mutual Fund scheme, the employees may report only at the time of making the first instalment of the transaction along with the period of such transaction.

Further, it is proposed to specify that no reporting is required if such transaction is subscription/investment in Mutual Fund units pursuant to mandatory requirement prescribed by SEBI for "Alignment of interest of Key Employees ('Designated Employees') of Asset Management Companies with the Unit holders of the Mutual Fund Schemes, where separate records are maintained by the Asset Management Company in this regard.

Question for public comments –:

*Whether the above provisions for reporting by designated persons appropriate?
Whether any increase or decrease in threshold is required?*

3.8. Code of conduct for designated persons and other persons:

It is proposed to prescribe minimum standard of code of conduct for designated persons as **Schedule B1** which will be in line with provisions of existing **Schedule B** of PIT Regulations. For every other person who is required to handle unpublished price sensitive information relating to a Mutual Fund Scheme or its units in the course of business operations, it is proposed to make existing **Schedule C** of PIT Regulations applicable.

Professional firms such as auditors, accountancy firms, law firms, analysts, consultants, banks, valuation agencies, fund accountants, assisting or advising Asset Management Companies, Trustees, Registrars and share transfer agents, Custodians, Credit Rating Agencies shall be collectively referred to as "fiduciaries" for the purpose of **Schedule C** of existing PIT Regulations.



Every AMC, intermediary and other persons formulating a code of conduct shall identify and designate a compliance officer to administer the code of conduct and other requirements under these regulations.

Question for public comments –:

Whether there are any specific comments/suggestions to offer in this regard?

3.9. Closure period:

It is proposed to specify that the compliance officer of the AMC shall determine the Closure period during which a designated person or class of designated persons can reasonably be expected to have possession of unpublished price sensitive information, their immediate relatives and any other person for whom such person takes trading decisions cannot transact in units of the Mutual Fund. Such closure period proposed to be imposed in relation to such schemes to which such unpublished price sensitive information relates. During such time, no request in transactions in the units of the Mutual Funds by the designated persons or those persons specified above shall be processed by the AMC

It is proposed to specify that the closure period restrictions will not apply in respect of instances specified in Clause 3.6 and in respect of a pledge of Mutual Fund Units for a bonafide purpose, subject to pre-clearance by the compliance officer and compliance with the other requirements, if any, specified by SEBI.

Question for public comments –:

Whether the above provisions with respect to closure period requirements are adequate? Any specific comments/suggestions to offer in this regard?

- 3.10. **Pre-clearance of Mutual Fund transactions:** It is proposed to specify that when the closure period is not applicable, trading in the Mutual Fund Units by designated persons, their immediate relatives and any other person for whom such person takes trading decisions including for initiation of systematic transactions shall be subject to pre-clearance by the compliance officer. However, with respect to transactions in units by the designated persons pursuant to the mandatory requirement under 'Alignment of interest of Key Employees ('Designated Employees') of Asset Management companies with the Unit holders of the Mutual Fund Schemes' requirements shall be as prescribed in the [SEBI Circular](#).

Question for public comments –:



Whether there are any specific comments/suggestions to offer with respect to pre-clearance of Mutual Fund transactions?

3.11. Applicability of PIT Regulations to units of other Pooled Investment Vehicles (PIVs):

At present, in PIT Regulations, in the definition of Securities only units of Mutual Funds are excluded and thus, all the provisions of PIT Regulations are applicable to units of other Pooled Investment Vehicles such as AIFs, REITs and InvITs as on date. The said position is further clarified in informal guidance dated March 16, 2022.

Question for public comments –:

Whether there are any specific comments/suggestions to offer with respect to treatment of trading in Pooled Investment Vehicles under PIT Regulations?

4. Proposed amendments to PIT Regulations are enclosed as **Annexure**.

Question for public comments –:

Whether there are any specific comments/suggestions to offer with respect to Proposed amendments. If so, specify?

5. The public comments may be sent via email on pit-mf@sebi.gov.in, not later than **July 29, 2022** (within 21 calendar days from date of publication of this consultation paper on SEBI website) in the following format:

Name of the person/entity proposing comments:			
Name of the organization (if applicable):			
Contact details:			
Sr. No.	Para of consultation paper/proposed amendment	Suggestions/ Comments	Rationale

Name of the person/entity proposing comments:			
Sr. No.	Other issues	Suggestions/ Comments	Rationale



Kindly mention the subject of the communication as "**Comments on Consultation Paper on inclusion of Mutual Fund Units in PIT Regulations**"

[Note: The respondent may specify whether they are market intermediary/ participant (mention type/ category) or public (investor, academicians etc.)]

Comments in aforesaid format can also be sent through post to the following address:

Manaswini Mahapatra,
General Manager,
Investment Management Department
Securities and Exchange Board of India,
SEBI Bhavan, C4-A, G-Block,
Bandra Kurla Complex, Bandra (East), Mumbai 400051

Issued on: July 08, 2022

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ANNEXURE

Proposed Amendments to SEBI (PIT) Regulations, 2015

- I. **Definition of Securities:** The words “except units of a mutual fund” in Regulation 2 sub-regulation (1) of clause (i) may be omitted;
- II. **Definition of Trading:** Regulation 2 (1) (I) may be amended as follows –

"trading" means and includes subscribing, redeeming, switching, buying, selling, dealing, or agreeing to subscribe, redeem, switch, buy, sell, deal, in any securities, and "trade" shall be construed accordingly".
- III. **Applicability of SEBI PIT Regulations to Units:** After sub-regulation (2) to Regulation 2, following may be inserted:

“(3) With respect to dealing in the units of a Mutual Fund, only the provisions of Chapter IIA, IIIA and V are applicable;
- IV. **Separate Chapter “Chapter IIA”** titling “**Restrictions on communication in relation to, and trading by insiders in, the units of mutual funds**” is inserted which shall only be applicable to Mutual Fund Units;
- V. **Following provisions may be inserted in Chapter IIA:**
 - 5A. (1) For the purpose of this chapter,
 - (a) “Insider” means any person who is:
 - i. a connected person; or
 - ii. in possession of or having access to unpublished price sensitive information pertaining to a scheme
 - (b) unpublished price sensitive information shall mean any information pertaining to a scheme of a Mutual Fund which is not yet generally available and which could materially impact the Net Asset Value or materially affect the interest of unit holders, which shall include the instances where there is a likelihood of:
 - i. a change in the investment objectives of the concerned Mutual Fund Scheme(s);
 - ii. a change in the accounting policy;
 - iii. a material change in the valuation of any asset, or class of assets;



- iv. conversion of a close ended scheme to an open-ended scheme or an open-ended scheme to a close ended scheme;
- v. restrictions on redemptions, winding up of scheme(s);
- vi. creation of segregated portfolio;
- vii. swing pricing framework will be triggered and swing factor will be made applicable;
- viii. material change in the liquidity position of the concerned Mutual Fund Scheme(s)
- ix. default in the underlying securities which is material to the concerned Mutual Fund Scheme(s) etc.”

(c) Generally available information would mean any information that is made available to the unitholders or made accessible to the public on a non-discriminatory basis on an independent platform/(s) as specified by Board, including the platform of the Stock Exchanges.

(d) "connected person" shall mean:

- (i) any person who is or has during the two months prior to the concerned act been associated with the Mutual Fund, Asset Management Company and Trustees, 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 employee of the Asset Management Company and Trustee or holds any position including a professional or business relationship between himself and the Mutual Fund/ Asset Management Company/Trustees, 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;

(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,

- (a) an immediate relative of connected persons specified in clause (i); or any other person for whom such person takes trading decisions; or
- (b) Sponsor, holding company or associate company or group company or subsidiary company of the Sponsor or Asset Management Company and Trustees; or
- (c) Board of Directors and key management personnel of Sponsor of the Mutual Fund;



- (d) Registrar and Share Transfer Agents, Custodians or Valuation Agencies of the Mutual Fund or its directors or its key management personnel or its employees handling activities relating to concerned Mutual Fund; or
- (e) an official or an employee of Fund Accountant providing services to a Mutual Fund, or
- (f) an official or an employee of Association of Mutual Fund of India. or
- (g) an official or an employee of a self-regulatory organization recognised or authorized by the Board; or
- (h) an official of a stock exchange or such other independent platforms as specified by Board for dissemination of information; or
- (i) Auditor, Legal Advisor or Consultants of the Mutual Fund or Asset Management Company; or
- (j) an official or an employee of a Credit Rating Agency; or
- (k) an intermediary as specified in section 12 of the Act or an employee or director thereof; or
- (l) a banker of the Mutual Fund or Asset Management Company; or
- (m) a concern, firm, trust, Hindu undivided family, company or association of persons wherein a director of an Asset Management Company and Trustees; or his immediate relative or banker of the company, has more than ten per cent of the holding or interest;

(e) "Systematic Transactions" in the units of Mutual Funds are those transactions which are automatically triggered for execution on a periodical basis as instructed by the investor including Systematic Investment Plans (SIP), Systematic Transfer Plans (STP) or Systematic Withdrawal Plans (SWP).

Note: All other definition in Chapter-I will *ipso facto* be applicable to transactions in the units of Mutual Funds.

Communication or procurement of unpublished price sensitive information.

- 5B. (1) No insider shall communicate, provide, or allow access to any unpublished price sensitive information to any person including other insiders except where such communication is in furtherance of legitimate purposes, performance of duties or discharge of legal obligations.

NOTE: This provision is intended to cast an obligation on all insiders who are essentially persons in possession of unpublished price sensitive information to handle such information with care and to deal with the information with them when transacting their business strictly on a need-to-know basis. It is also intended to



lead to organisations developing practices based on need-to-know principles for treatment of information in their possession.

(2) No person shall procure from or cause the communication by any insider of unpublished price sensitive information, except in furtherance of legitimate purposes, performance of duties or discharge of legal obligations.

NOTE: This provision is intended to impose a prohibition on unlawfully procuring possession of unpublished price sensitive information. Inducement and procurement of unpublished price sensitive information not in furtherance of one's legitimate duties and discharge of obligations would be illegal under this provision.

(3) The board of directors of an Asset Management Company with the approval of the Trustees shall make a policy for determination of "legitimate purposes".

Explanation – For the purpose of illustration, the term "legitimate purpose" shall include sharing of unpublished price sensitive information in the ordinary course of business by an insider with Trustees, Registrars and Share Transfer Agents, Custodians, Valuation Agencies, Fund Accountants, Association of Mutual Funds of India, Credit Rating Agencies, legal advisors, auditors or other advisors or consultants, except where such sharing has been carried out to evade or circumvent the prohibitions of these regulations.

(4) Any person in receipt of unpublished price sensitive information pursuant to a "legitimate purpose" shall be considered an "insider" for purposes of this chapter and due notice shall be given to such persons to maintain confidentiality of such unpublished price sensitive information in compliance with these regulations.

(5) Board of directors of an Asset Management Company with the approval of the Trustees shall require the parties to execute agreements to contract confidentiality and non-disclosure obligations on the part of such parties and such parties shall keep information so received confidential, except for the purpose of specified herein and shall not otherwise deal in the units of a Mutual Fund when in possession of unpublished price sensitive information.

(6) The board of directors or head(s) of the organisation of every person required to handle unpublished price sensitive information shall ensure that a structured digital database is maintained containing the nature of unpublished price sensitive information and the names of such persons who have shared the information and



also the names of such persons with whom information is shared under this regulation along with the Permanent Account Number or any other identifier authorized by law where Permanent Account Number is not available. Such database shall not be outsourced and shall be maintained internally with adequate internal controls and checks such as time stamping and audit trails to ensure non-tampering of the database.

(7) The board of directors or head(s) of the organisation of every person required to handle unpublished price sensitive information shall ensure that the structured digital database is preserved for a period of not less than eight years after completion of the relevant transactions and in the event of receipt of any information from the Board regarding any investigation or enforcement proceedings, the relevant information in the structured digital database shall be preserved till the completion of such proceedings

Trading when in possession of unpublished price sensitive information.

5C. (1) No insider shall trade in the units of a scheme of a Mutual Fund, when in possession of unpublished price sensitive information, which may have material impact on the Net Asset Value or may have material impact on the interest of the unit holders of the scheme:

Explanation –When a person who deals in units of the Mutual Fund has been in possession of unpublished price sensitive information, his dealings would be presumed to have been motivated by the knowledge and awareness of such information in his possession.

Provided that the insider may prove his innocence by demonstrating the circumstances including the following: –

- (i) the transaction is an off-market inter-se transfer between insiders who were in possession of the same unpublished price sensitive information and both parties had made a conscious and informed trade decision;
- (ii) such transaction in question was carried out pursuant to a statutory or regulatory obligation including subscription/investment in Mutual Fund units pursuant to mandatory requirement prescribed by Board for “Alignment of interest of Designated Employees of Asset Management Companies with the Unit holders of the Mutual Fund Schemes”;



- (iii) such transaction in question is triggered by Systematic plans, where such Systematic plans are registered at least sixty days prior to such transaction or triggered by irrevocable Trading plans, where such plan has been approved by Compliance Officer and disclosed on an independent platform as decided by Board, at least sixty days before the commencement of trades;

Provided that the trading period for each plan shall at least be six months with no overlapping of different trading plans.

Provided further that for the trading as per approved plan, no requirements/norms related to pre-clearance of trading or closure period or contra trade shall be applicable.

- (2) In the case of connected persons, the onus of establishing, that they were not in possession of unpublished price sensitive information, shall be on such connected persons and in other cases, the onus would be on the Board.

5D. (i) Asset Management Company shall disclose the details of holdings in the units of the Mutual Fund schemes held by the Designated Persons of Asset Management Company/Trustees, their immediate relatives and any other person for whom such person takes trading decisions on an independent platform as on the date, and quarterly, as specified by the Board;

- (ii) Details of all the transactions in units of the Mutual Funds executed by the Designated Persons of Asset Management Company/Trustees and their immediate relatives shall be reported by the concerned person to the Compliance Officer of Asset Management Company within 7 calendar days from the date of transaction;

Provided with respect to systematic transactions through any Mutual Fund schemes, Designated Persons may report only at the time of making the first installment of the transaction along with the period of such transaction and on modifications thereof, if any;

Provided further that no reporting is required if such transaction was pursuant to subscription/investment in the Mutual Fund units pursuant to mandatory requirement prescribed by Board for "Alignment of interest of Key Employees ('Designated Employees') of Asset Management Companies with the Unitholders of the Mutual Fund Schemes" or otherwise, where separate records are maintained by the Asset Management Company in this regard.



(iii) Transactions mentioned in clause (ii) having value above rupees ten lakhs shall be disclosed by the Asset Management Company on an independent platform as specified by Board within 48 hours of receipt of the same;

5E. (1) The board of directors of every Asset Management Company/Trustees shall ensure that the chief executive officer or managing director shall formulate a code of conduct with their approval to regulate, monitor and report dealing in Mutual Fund units by its designated persons and immediate relatives of designated persons towards achieving compliance with these regulations, adopting the minimum standards set out in **Schedule B1** to these regulations, without diluting the provisions of these regulations in any manner.

(2) The board of directors or head(s) of the organisation, of every other person who is required to handle unpublished price sensitive information relating to a Mutual Fund Scheme or its units in the course of business operations shall formulate a code of conduct to regulate, monitor and report trading by their designated persons and immediate relative of designated persons towards achieving compliance with these regulations, adopting the minimum standards set out in **Schedule C** to these regulations, without diluting the provisions of these regulations in any manner.

Explanation - Professional firms such as auditors, accountancy firms, law firms, analysts, consultants, banks, valuation agencies, fund accountants, assisting or advising Asset Management Companies, Trustees, Registrars and share transfer agents, Custodians, Credit Rating Agencies shall be collectively referred to as “fiduciaries” for the purpose of **Schedule C** of PIT regulations.

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(3) Every Asset Management Company, intermediary and other persons formulating a code of conduct shall identify and designate a compliance officer to administer the code of conduct and other requirements under these regulations.

5F. The board of directors of the Asset Management Company/Trustees shall in consultation with the compliance officer specify the designated persons to be covered by the code of conduct on the basis of their role and function in the organisation and the access that such role and function would provide to unpublished price sensitive information in addition to seniority and professional designation and shall include:



Head of the Asset Management Company (designated as CEO/Managing Director/President or by any other name), Directors of the Asset Management Company or the Trustee Company, Chief Investment Officer, Chief Risk Officer, Chief Operation Officer, Chief Information Security Officer, Fund Managers, Dealers, Research Analysts, all employees in the Fund Operations Department, Compliance Officer and Heads of all divisions and/or departments or any other employee as designated by the Asset Management Company and/or Trustees;

5G. (1) The Chief Executive Officer / Managing Director of an Asset Management Company with the approval of the Trustee shall put in place adequate and effective system of internal controls to ensure compliance with the requirements given in these regulations to prevent insider trading. The internal controls shall include the following:

- (a). all employees who have access to unpublished price sensitive information are identified as designated persons;
- (b). all the unpublished price sensitive information shall be identified and its confidentiality shall be maintained as per the requirements of these regulations;
- (c). adequate restrictions shall be placed on communication or procurement of unpublished price sensitive information as required by these regulations;
- (d). lists of all employees and other persons with whom unpublished price sensitive information is shared shall be maintained and confidentiality agreements shall be signed or notice shall be served to all such employees and persons;
- (e). all other relevant requirements specified under these regulations shall be complied with;
- (f). periodic process review to evaluate effectiveness of such internal controls.

(2) The board of directors of an Asset Management Company/Trustee and the board of directors or head(s) of the organisation of intermediaries and fiduciaries, shall ensure that the Chief Executive Officer or the Managing Director or such other analogous person ensures compliance with these regulation.

(3) The Audit Committee of an Asset Management Company/ Trustee Company shall review compliance with the provisions of these regulations at least once in a financial year and shall verify that the systems for internal control are adequate and are operating effectively.

(4) Every Asset Management Company with the approval of the Trustees shall formulate written policies and procedures for inquiry in case of leak of



unpublished price sensitive information or suspected leak of unpublished price sensitive information, and accordingly initiate appropriate inquiries on becoming aware of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information and inform the Board promptly of such leaks, inquiries and results of such inquiries.

(5) Asset Management Company with the approval of the Trustees shall have a whistle-blower policy and make employees aware of such policy to enable employees to report instances of leak of unpublished price sensitive information.

(6) If an inquiry has been initiated by an Asset Management Company/ Trustees in case of leak of unpublished price sensitive information or suspected leak of unpublished price sensitive information, the relevant intermediaries and fiduciaries shall co-operate with the Asset Management Company/ Trustees in connection with such inquiry conducted by Asset Management Company/ Trustees.



SCHEDULE B1

(See Regulation 5E of Chapter - IIA)

Minimum Standards for Code of Conduct for Mutual Funds to Regulate, Monitor and Report Trading by Designated Persons in the units of own Mutual Fund schemes

1. The compliance officer shall report to the Trustees and in particular, shall provide reports to the Chairman of the Audit Committee of the Asset Management Company, and to the Trustees at such frequency as may be stipulated by the Trustees, but not less than once in a year.

2. All information shall be handled within the organisation on a need-to-know basis and no unpublished price sensitive information shall be communicated to any person except in furtherance of legitimate purposes, performance of duties or discharge of legal obligations. The code of conduct shall contain norms for appropriate Chinese Walls procedures, and processes for permitting any designated person to “cross the wall”.

3. Designated Persons and immediate relatives of designated persons in the organisation shall be governed by an internal code of conduct governing dealing in Units of the Mutual Fund.

4. (1) Designated persons may deal in Units of the Mutual Fund subject to compliance with these regulations. The compliance officer of the Asset Management Company shall determine the Closure period during which a designated person or class of designated persons can reasonably be expected to have possession of unpublished price sensitive information, their immediate relatives and any other person for whom such person takes trading decisions cannot transact in units of the Mutual Fund. Such closure period proposed to be imposed in relation to such schemes to which such unpublished price sensitive information relates. During such time, no request in transactions in the units of the Mutual Funds by the designated persons or those persons specified above shall be processed by the Asset Management Company.

(2) The closure period restrictions mentioned in sub-clause (1) shall not apply in respect of transactions specified in clauses (i) to (iii) of the proviso to sub-regulation (1) of regulation 5C and in respect of a pledge of Mutual Fund Units for a bonafide purpose, subject to pre-clearance by the compliance officer and compliance with the other requirements, if any, specified by the Board;



5. The timing for re-opening of the closure period shall be determined by the compliance officer taking into account various factors including the unpublished price sensitive information in question becoming generally available and being capable of assimilation by the market.

6. When the closure period is not applicable, trading in the Mutual Fund Units by designated persons, their immediate relatives and any other person for whom such person takes trading decisions including initiation of systematic transactions shall be subject to pre-clearance by the compliance officer. However, with respect to transactions in units by the designated persons pursuant to the mandatory requirement under 'Alignment of interest of Key Employees ('Designated Employees') of Asset Management companies with the Unit holders of the Mutual Fund Schemes' or otherwise shall be as prescribed in the [Circulars](#) issued by Board in this regard.

7. Prior to approving any trades, the compliance officer shall be entitled to seek declarations to the effect that the applicant for pre-clearance is not in possession of any unpublished price sensitive information. He shall also have regard to whether any such declaration is reasonably capable of being rendered inaccurate.

8. The code of conduct shall specify any reasonable timeframe, which in any event shall not be more than seven trading days, within which trades that have been pre-cleared have to be executed by the designated person, failing which fresh pre-clearance would be needed for the trades to be executed.

9. 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 or other requirements specified by Board. Should a contra trade be executed, inadvertently or otherwise, in violation of such a restriction, the profits (or loss avoided) 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.

10. The code of conduct shall stipulate such formats as the board of directors deems necessary for making applications for reporting of trades executed, and for reporting level of holdings in securities at such intervals as may be determined as being necessary to monitor compliance with these regulations.



11. Without prejudice to the power of the Board under the Act, the code of conduct shall stipulate the sanctions and disciplinary actions, including wage freeze, suspension, recovery, etc., that may be imposed, by the Asset Management Company /Trustees required to formulate a code of conduct, for the contravention of the code of conduct. Any amount collected under this clause shall be remitted to the Board for credit to the Investor Protection and Education Fund administered by the Board under the Act.

12. The code of conduct shall specify that in case it is observed by the Asset Management Company /Trustees or the other persons required to formulate a code of conduct, that there has been a violation of these regulations, it shall promptly inform to the Trustees and the Board, in such form and such manner as may be specified by the Board from time to time.

13. Designated persons shall be required to disclose names and Permanent Account Number or any other identifier authorized by law of the following persons to the Mutual Fund on an annual basis and as and when the information changes:

- a) immediate relatives
- b) persons with whom such designated person(s) shares a material financial relationship
- c) Phone, mobile and cell numbers which are used by them

In addition, the names of educational institutions from which designated persons have graduated and names of their past employers shall also be disclosed on a one time basis.

Explanation – The term “material financial relationship” shall mean a relationship in which one person is a recipient of any kind of payment such as by way of a loan or gift from a designated person during the immediately preceding twelve months, equivalent to at least 25% of the annual income of such designated person but shall exclude relationships in which the payment is based on arm’s length transactions.

14. Mutual Funds shall have a process for how and when people are brought ‘inside’ on sensitive transactions. Individuals should be made aware of the duties and responsibilities attached to the receipt of Inside Information, and the liability that attaches to misuse or unwarranted use of such information.
