Sebi's new insider- trading rules to cover Parliament

The Securities and Exchange Board of India's (Sebi's) revised guidelines might bring public servants, such as government employees with access to price- sensitive information, under the ambit of insider- trading regulations. A report prepared by Sebi's 18- member insider trading committee, headed by former judge N KSodhi, has recommended bringing such individuals under the regulatory net. "A new feature of the proposed regulations is that of treating public servants and persons holding statutory positions reasonably expected to have access to UPSI (unpublished price sensitive information) as connected persons and thereby prohibiting them from trading when in possession of UPSI," said the report. Examples of such public servants include those involved in formulating policy that could impact a company's shares. This could include the pricing policy for a natural resource or a decision on the cap on foreign investment in a specific sector. The guidelines also cover judges presiding over matters that may have an impact on a company's stock price. The report has said ' public servant' will have the same meaning as in the Prevention of Corruption Act, 1988. A member of the insider- trading committee confirmed the draft regulations would also cover members of Parliament and state Assemblies, as well as ministers. The Act defines a public servant as ' any person in the service or pay of the government or remunerated by the government by fees or commission for the performance of any public duty'. "Inclusion of public servants is an important development and in line with what is happening across the world. Public servants do have access to a lot of price- sensitive information. However, the recommendation pertains only to listed companies. The next progress should be to include other information on, maybe, taxes or the Budget. A trading plan is actually a good exemption for promoters. They will be able to execute their trades not on inside information but according to a pre- disclosed plan," said Sandeep Parekh, founder, Finsec Law Advisors. The new regulations allow insiders, especially those in constant possession of sensitive information, to trade in a company's shares only through a pre- disclosed trading schedule, to be made public at least six months before the transaction. The new rules also mandate those conducting due diligence of a company to disclose such information to the public before trading in its shares. This would not apply to cases where open offers are made. "The guidelines are a step in the right direction, though more could have been done. Inclusion of public servants is an important move. Policy makers often have more price- sensitive information than company employees. There should have been more curbs on the broking and investment banking community. These entities often trade on the basis of inside information available to them," said Shriram Subramanian, founder & MD of InGovern Research Services, a corporate governance firm. "There has been a lot of discussion on promoters and employees, and less on external parties that get access to price- sensitive information. Promoters should be discouraged from trading. Trading plans will be an important deterrent in that direction." Last year, the US passed a law that explicitly disallowed insider trading by members of the Congress. The Stop Trading on Congressional Knowledge, or STOCK, Act banned Congress members from trading on inside information they were privy to because of their position. Sebi's draft regulations also require companies to keep a record of all holdings by employees, as well as third parties that may have access to inside information. The regulator has invited public comments on the report by December 31, after which it will finalise the norms.

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