

# "INSIDER TRADING REGULATIONS IN INDIA: SAFEGUARDING MARKET INTEGRITY UNDER SEBI AND THE COMPANIES ACT"



Insider Trading refers to the buying and selling of a publicly traded company's stocks or other securities by individuals who have access to non-public information about the Company. Insider trading is a serious offense that undermines market integrity and investor confidence. To prevent unfair advantages and maintain transparency in the securities market, the **Companies Act, 2013**, and the **Securities and Exchange Board of India (SEBI) (Prohibition of Insider Trading) Regulations, 2015** lay down strict guidelines to regulate insider trading in India. These laws define insider trading, set penalties, and establish preventive measures for companies and their employees.

## **What is Unpublished Price Sensitive Information (UPSI)?**

Any information that is not publicly available and can materially impact the stock price, such as financial results, mergers, acquisitions, or major investments.

The Companies Act 2013 originally contained Section 195, which prohibited insider trading. However, this section was omitted in 2017, and insider trading is now governed exclusively by SEBI Regulations.

## **SEBI (Prohibition of Insider Trading) Regulations, 2015**

- Prohibits insiders from trading in securities when in possession of UPSI.
- Requires companies to have a Code of Conduct to prevent unauthorized sharing of sensitive information.

- **Trading Window Restrictions:** Certain timeframes, like before earnings announcements, are blackout periods when trading is not allowed.
- **Mandatory Disclosure:** Insiders must report their stock transactions to ensure transparency.

### **What Are Blackout Periods in Insider Trading?**

Blackout periods are specific timeframes during which insiders (directors, employees, key executives, and other individuals with access to Unpublished Price-Sensitive Information - UPSI) are prohibited from trading in the company's securities. These periods are enforced to prevent insider trading and ensure fair market practices.

### **Why Are Blackout Periods Important?**

- **Prevents Unfair Advantage:** Ensures insiders do not misuse sensitive information before it is made public.
- **Protects Market Integrity:** Maintains investor confidence by promoting transparency.
- **Ensures Regulatory Compliance:** Companies must adhere to SEBI's insider trading regulations to avoid penalties.

### **When Do Blackout Periods Apply?**

**Financial Results Announcements** (quarterly or annual earnings reports).

**Mergers, Acquisitions, or Takeovers** involving the company.

**Major Business Decisions** such as dividend declarations, stock buybacks, or leadership changes.

**Any Event Impacting Share Price** where UPSI is involved.

### **How Long Do Blackout Periods Last?**

SEBI regulations do not specify a fixed duration, but most companies **impose blackout periods from the end of a financial quarter until 48 hours after the public disclosure of financial results.**

Companies may extend blackout periods based on their internal policies and specific corporate events.

### **Who Does It Affect?**

All insiders, including board members, key executives, employees, auditors, and consultants who have access to UPSI.

Family members of insiders who might indirectly receive UPSI.

### **Consequences of Violating Blackout Periods**

Heavy fines and penalties under SEBI's insider trading regulations.  
Legal action including possible imprisonment.  
Reputational damage for both the individual and the company.

### **Penalties for Insider Trading**

- **Monetary Penalties:** A fine ranging from ₹10 lakh to ₹25 crore or three times the profit gained, whichever is higher.
- **Criminal Charges:** Can lead to imprisonment for up to 10 years.
- **Market Restrictions:** SEBI can ban individuals from holding director positions or participating in stock trading.

**Example: If a company director leaks sensitive financial data to a friend who profits from stock trades, both can face heavy fines and even jail time.**

Insider trading damages market fairness and trust. By enforcing strict **SEBI regulations**, companies and individuals can promote ethical trading practices. Businesses should implement strong **internal controls, conduct regular compliance training, and monitor transactions** to prevent violations. Investors should also be aware of these rules to protect themselves and ensure a fair market for everyone. Transparency and integrity are the pillars of a strong financial ecosystem, and following these regulations helps maintain confidence in India's growing economy.

---