



CIRCULAR

SEBI/HO/MRD/DCAP/CIR/P/2021/23

March 03, 2021

To,

All recognized Stock Exchanges, Clearing Corporations and Depositories

Sir / Madam,

Subject: Code of Conduct & Institutional mechanism for prevention of Fraud or Market Abuse

1. Pursuant to the report of the Committee on Fair Market Conduct ('Committee'), set up *inter-alia* to recommend appropriate Institutional Mechanism to ensure accountability of the management / designated persons in case of negligence / failure, necessary changes have been carried out in SEBI (Prohibition of Insider Trading) Regulations, 2015 (herein after referred as 'PIT Regulations').
2. Based on the above, it has been decided that the Code of Conduct and Institutional Mechanism for prevention of fraud or market abuse shall be applicable to Stock Exchanges, Clearing Corporations and Depositories (herein after collectively referred as 'MIs') also, on the lines of Regulation 9(1) to 9(4) of PIT Regulations.
3. Accordingly, MIs shall do the following:
 - 3.1. 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 the PIT Regulations, by adopting the minimum standards set out in Schedule C to the PIT Regulations.
 - 3.2. Managing Director (MD) / Chief Executive Officer (CEO) of the MI shall be obligated to frame the referred code of conduct. The Board of Directors may ensure the compliance by MD / CEO in this regard.

Explanation – For the avoidance of doubt it is clarified that a MI, which is listed, is already required to adopt minimum standards set out in Schedule B of PIT regulations. Further, such MI shall adopt minimum standards as set out in Schedule B of PIT regulations with respect to trading in its own securities and in Schedule C with respect to trading in other securities.



- 3.3. MII shall identify and designate a compliance officer to administer the aforesaid code of conduct.
- 3.4. The Board of Directors of MII, in consultation with the aforesaid compliance officer, shall 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on the basis of their role and function in the organisation and the access that such role and function would provide to unpublished price sensitive information in addition to seniority and professional designation and shall include the position / designation as specified in the Regulation 9(4) of the PIT Regulations.
4. MII shall put in place an Institutional Mechanism for prevention of fraud or market abuse covering the following:
 - 4.1. MD / CEO of the MII shall put in place adequate and effective system of internal controls to ensure compliance with the regulations and circulars issued by the Board from time to time, to prevent fraud or market abuse by MII or its designated persons and immediate relatives of designated persons.
 - 4.2. The Board of Directors of the MII shall ensure that the MD / CEO ensures compliance with Para 3 and Para 4.1 above. The compliance officer of the respective MII shall administer the internal controls to prevent fraud or market abuse by designated persons and immediate relatives of designated persons of the MII.
 - 4.3. The Regulatory Oversight Committee of the MII shall review compliance with the provisions of this Circular at least once in a financial year and shall also verify that the systems for internal control are adequate and are operating effectively.
 - 4.4. MII shall formulate written policies and procedures for inquiry in case of suspected fraud or market abuse by its designated persons and immediate relatives of designated persons, which shall be approved by its Board of Directors. Any enquiry / investigation against the designated persons and immediate relatives of designated persons of the MII may be undertaken under the supervision of Regulatory Oversight Committee comprising of PIDs and independent external expert with consideration of avoidance of conflict of interest, if any, so as to ensure maximum fairness and transparency.



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- 4.5. MII shall initiate appropriate inquiry upon becoming aware of any illegal or unethical practices or transactions of suspected fraud or market abuse by its designated persons and immediate relatives of designated persons and promptly inform its Board of Directors of such suspected fraud or market abuse and results of the inquiry.
- 4.6. MII shall have an effective whistler-blower policy to enable stakeholders, including employees to freely communicate their concerns about illegal or unethical practices and report instances of fraud or market abuse or any suspicion of fraud or market abuse.
- 4.7. MII shall ensure that the policy framed under Para 4.6 provides for suitable protection against any discharge, termination, demotion, suspension, threats, harassment, directly or indirectly or discrimination against any employee who reports instances of fraud or market abuse or any suspicion of fraud or market abuse.
5. Words and expressions used but not defined in this Circular shall have the same meanings as may be defined in Securities Contracts (Regulation) Act, 1956 or the Securities and Exchange Board of India Act, 1992 or the Depositories Act, 1996 or Regulations made thereunder i.e. Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018, SEBI (Depositories and Participants) Regulations, 2018, PIT Regulations, SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003, unless the context requires otherwise.
6. MIIs are directed to:
 - 6.1. take necessary steps to put in place systems for implementation of the circular, including necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above and disseminate the same on their website;
 - 6.2. communicate to SEBI the status of implementation of the provisions of this circular through their Monthly Development Report.
7. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 and Section 19 of the Depositories Act, 1996, to protect the interests of investors in securities market and to promote the development of, and to regulate the securities market.



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8. The circular is available on SEBI website at www.sebi.gov.in at “Legal → Circulars” and shall come into force with immediate effect.

Yours faithfully,

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