

SUGGESTED SOLUTION

Case Study 2

**Note: Please note these solutions are for guidance purpose only.**

XYZ Consulting

Dated:

Mr. Zahir

Sub: Report on the various issues raised during our meeting dated.....

The point-wise reply on the various issues raised by you is as follows:

**(A)** Although in WhatsApp, it is not easy due to end-to-end encryption to monitor the messages but it is possible, to set up specialised units to track and monitor such a medium. It is also possible for Sebi to set up an email id, for example, where such messages can be anonymously forwarded for analysis. That would give the regulator some idea about the scale of problem and an opportunity to judge which messages are credible and actionable and worth following up.

**(B)** As per SEBI Guidelines the meaning of the term 'insider' means any person who is:

- (i) a connected person; or
- (ii) in possession of or having access to unpublished price sensitive information;

and 'unpublished price sensitive information' is:

any information, relating to a company or its securities, directly or indirectly, that is not generally available which upon becoming generally available, is likely to materially affect the price of the securities and shall, ordinarily including but not restricted to, information relating to the following: –

- (i) financial results;
- (ii) dividends;
- (iii) change in capital structure;
- (iv) mergers, de-mergers, acquisitions, delistings, disposals and expansion of business and such other transactions;
- (v) changes in key managerial personnel; and
- (vi) material events in accordance with the listing agreement.

To curb the practice of Insider Trading the law expanded the scope of who constitutes an "insider" to include "anyone in possession of or having access to unpublished price-sensitive information" regardless of how they came "in possession of or had access to such information".

Further circulating "unpublished price-sensitive information" can result in penalties of up to 250 million rupees and a jail term of up to 10 years. The monetary amount can be higher if it can be proven that an individual traded on such information.

**(C)** Since Joseph was in possession of unpublished price sensitive information and he has circulated the data also, he can be called as 'insider'.

**(D)** Insider Trading Management System (ITMS) serves as a central repository of insider related information for reporting and analytics.

ITMS helps organizations easily capture details about "Insiders" and their relatives as per the policy definition. A workflow enabled pre-dealing approval as well as post trade update mechanism brings efficiency to request handling.

A configurable "Trading Window" and automated alerts & notifications add flexibility to the system.

- (E) Since the difference between the actual information compiled and the information as per the message is almost minuscule there is a clear cut case of insider trading. Further following course of action can be followed by such insiders on receiving such information.

| <b>Company</b>    | <b>Course of action might have been followed by Insider</b>  |
|-------------------|--|
| DR WADES          | Since there is a prediction of loss. The insider will sell the shares he/ she own before the information is made public as price will fall after the announcement of results.<br>(Insider can take short position in the shares) |
| CFDC BANK         | Insider shall acquire the shares as bank is likely to post profit and very less GNPA.<br>(Insider can take long position in the shares)  |
| SIXES BANK        | Since the results likely to be announced are not good e.g. rising GNPA etc. it is likely that the price of shares will fall. Hence insider shall sell his/ her shares.<br>(Insider can take short position in the shares)        |
| ABCD STEEL        | Since there is likely announcement of losses, the share prices of the company shall fall. Accordingly, the insider shall sell the share before such announcement.<br>(Insider can take short position in the shares)             |
| RAJENDRA HOLIDAYS | Since after the announcement of bonus issue there is likely to be a rise in the prices of the shares, the insider shall purchase the shares.<br>(Insider can take long position in the shares)                                   |

Thanks,

ABC

(Signature)

**(F) Answers to Multi Choice Questions (MCQs)**

- (i) (a)
- (ii) (d)
- (iii) (d)
- (iv) (c)
- (v) (a)
- (vi) (b)
- (vii) (c)
- (viii) (b)
- (ix) (d)
- (x) (c)