Officially speaking, it pays to be Street smart

It's difficult for an employed person to take up active trading in the stock market while at work. But there's a way out, says Nikhil Walavalkar

GIVEN India's growth story and low returns on debt, equities have become part of mainstream investments even for middle-class salaried individuals. But salaried individuals have to deal with two issues when it comes to dealing with stock markets. One is the access to trades since most salaried people are at work during office hours, and second is adherence to their employers' code of conduct regarding investments. Many companies firewall the websites of the Mumbai Stock Exchange and the National Stock Exchange or stock broking websites. At the same time, some companies explicitly bar employees from dealing in stocks during working hours.

THE ACCESS

If websites are blocked by employers as part of the IT security policy, employees can access stock quotes through GPRS-enabled mobile phones. Stock exchanges provide mobile applications that enable easy tracking of share prices. Stock brokers, too, have started offering tracking and trading applications on mobiles. Those who invest for the long term can even place orders outside trading hours. They can key in their orders that can be executed at specific price points. One can also call the broker and place his orders.

INSIDER TRADING

While technology addresses the physical obstacle, a bigger hurdle for salaried individuals is the strict norms imposed by some employers. With markets getting more complex, employees have to be doubly sure they are well within insider trading guidelines while transacting in shares of their own company or companies that they deal with. Broadly, the insider trading guidelines apply to any person who is or was connected with the company, and who is reasonably expected to have access to unpublished price-sensitive information about the stock of that particular company, or who has access to such unpublished price sensitive information. If you fall into this category, you have to be a bit more careful.

"It is important to read, understand and fully comply with the Code of Conduct prescribed by your employer for preventing insider trading, before you start investing. In case of a breach, ignorance of law cannot be a defence," says Vikram Shroff, head, HR (employment & labour) law practice, Nishith Desai Associates. Large organisations introduce the concept of insider trading to all employees concerned. Some entities put their code of conduct and processes on company intranet. The employees have to adhere to the process to ensure compliance. You have to take permission before you initiate any trade in shares of your company.

There are multinational entities that have introduced the practice of sending mails to all employees concerned about the periods in which the 'trading window' is closed for insiders. If you get such a mail, you are not supposed to trade — either buy or sell — in that stock for the stipulated period. Such stipulated periods are typically 15 days before and after corporate actions or material announcements are scheduled.

Insiders need not be only those who are employed in the same company. There are instances where individuals get access to price-sensitive information that is not in public domain due to professional relationships with corporate entities. Take a simple case. A software engineer working with a company offering software solutions to a listed company may have access to some classified information. Such a person can be termed as an insider. Those working with audit, business consultancy or legal firms can also have access to information that can be classified. Being an employee with such a firm, you typically do come across a code of conduct, better comply with it.

Being a professional, the onus of compliance is on you and you are expected to take all reasonable steps towards it. "A person qualifying as an 'insider' or subject to any trading restrictions, should make necessary disclosures while engaging a portfolio

manager or stock broker," adds Vikram Shroff. This ensures that the portfolio manager does not transact in securities where you are an insider. The situation is all the more complicated if you are an insider with more than one entity and you keep interacting with more entities. Better to update the list of insider status continuously.

Non-compliance of code of conduct attracts penalty and sometimes a bar on investing in stock markets. More important is that the professional life can come to an end as a violation of 'norm' is seen as a professional misconduct of the highest order.

CORPORATE POLICIES

There are fair practices prescribed by the corporate entities for employees investing in equities. One may come across a corporate code of conduct where an employee cannot trade using derivatives. Some companies have introduced a minimum holding period, say 30 days to 90 days, for each and every position an employee initiates. In other words, if you are subject to such a norm, you have to hold any shares you buy for the stipulated period of time. Put simply, no day trading or buytoday-sell-tomorrow types of quick trades.

"We have introduced an in-house process using intranet that takes care of an employee's investment declaration in equities markets," says Sudhir Dhar, head human resources, Motilal Oswal Financial Services. In sectors such as media and financial services, the professionals have to be more careful as the information is abundant and any action in violation of the code can be a disaster.

"Employment can be terminated on the ground of non-compliance to employer's corporate policy as it indicates breach of terms and conditions of employment," says advocate Amit Aggarwal, Partner SN Gupta & Company. Even if you may not be an insider but have signed a declaration, better be on the right side of law. There are many who prefer to take mutual fund route to leave no scope for error. Wealth creation using equity route is good as long as you stick to the norms and invest diligently.

nikhil.walavalkar@timesgroup.com