



## SEBI's clarification surrounding 'Contra Trade' and 'Trading Window' restriction in case of pledge of securities and invocation/revocation thereof

The Securities and Exchange Board of India ("SEBI") vide an Informal Guidance letter dated February 6, 2026, has provided response to certain queries raised by Avenue Supermarts Limited, a.k.a. **DMart** ("Company") surrounding applicability of 'contra trade' and 'trading' restrictions, in terms of the SEBI (Prohibition of Insider Trading) Regulations, 2015 ("PIT Regulations"), in case of pledge of securities and subsequent invocation/revocation of such pledge.

**1. Facts:** Under the two employee stock option schemes of the Company, stock options were due for vesting and subsequent exercise in favour of eligible employees (including certain Designated Persons ("DPs")) during the year 2026. The trading window closure period (which spans between 30 to 45 days, particularly at the time of the declaration of financial results) would have had coincide with the exercise period.

The DPs intended to avail financial assistance from banks / financial institutions by pledging the shares for the following purposes:

- for exercising vested stock options.
- for personal purposes such as buying house, repaying home loan or medical emergency.

**2. Queries and SEBI's guidance:** The queries raised and SEBI's response, in light of the above background facts, is summarised below:

**A. Query regarding contra trade:** Whether pledge creation and subsequent invocation/revocation within 6 months would be construed as contra trade?

- Revocation:** In this respect, SEBI referred to its earlier informal guidance dated August 4, 2025, issued to Welspun Corp Limited, whereby, it was clarified that creation and subsequent revocation of pledge does not effectively result in a change in beneficial ownership of shares. Thus, 'revocation' of pledge within six months of its creation shall not trigger contra trade restrictions under the PIT Regulations, provided that the DP proves 'bonafides' of the transaction and obtain pre-clearance of compliance officer in terms of Regulation 9 read with clause 6 of Schedule B (Minimum Standards for Code of Conduct) of PIT Regulations.
- Invocation:** SEBI clarified that since invocation of pledge results in a change in beneficial ownership of shares, it may be considered akin to a sale of shares. However, invocation of pledge, by itself, may not be construed as a contra trade unless the DP undertakes any transaction involving acquisition of shares (other than via exercise of ESOP) within a period of six months. Accordingly, the SEBI clarified that in case of 'invocation' of pledge, contra trade restrictions would be attracted where:



- a) invocation is coupled with a transaction involving acquisition of shares (other than through exercise of ESOPs); and
- b) such acquisition of shares is undertaken within a period of not less than six months prior to or subsequent to the invocation.

**B. Query regarding pledge of shares during trading window closure:** Whether pledge creation/revocation during trading window closure for availing financial assistance (a) for ESOP exercise; or (b) for personal purposes such as buying a house, repaying a home loan or medical emergency, would be treated a ‘bona fide’ transaction eligible for pre-clearance?

The SEBI clarified that under Clause 4(3)(a) of Schedule B of the PIT Regulations, trading window restrictions do not apply to pledge of shares for bona fide purposes such as raising of funds, subject to pre-clearance by the compliance officer. The phrase ‘such as’ is illustrative and not exhaustive — the PIT Regulations do not limit ‘bona fide’ purposes to any closed list. Accordingly, whether a transaction qualify as bona fide is to be determined on a case-to-case basis by the compliance officer in accordance with the Company’s Code of Conduct, provided such determination does not result in a violation of the PIT Regulations or other applicable SEBI Regulations.

- 3. High level remarks:** As per the comprehensive FAQs on PIT Regulations read with the guidance provided earlier by SEBI in Welspun matter, it has been recognized that ‘creation’, ‘revocation’ and ‘invocation’ of pledge falls with the wide term of ‘dealing’ in securities and thus each of them is construed as ‘trade’ under PIT Regulations. However, while assessing the applicability of ‘contra-trade’ restriction, the SEBI has drawn a meaningful distinction between ‘revocation’ and ‘invocation’ of pledge whereby the former does not result in change in beneficial ownership, the latter does.

Resultantly, in Welspun matter, the twin transactions of: (a) ‘creation and revocation of pledge’ within 6 months; and (b) ‘revocation of pledge and immediate sale’ of shares, were **not** construed as ‘contra trade’ by the SEBI. Whereas, in the present DMart matter, the transaction of ‘creation and invocation of pledge’ within 6 months has not itself been construed as ‘contra trade’ – however, an ‘invocation’ coupled with ‘acquisition’ of shares within 6 months has been flagged as ‘contra-trade’. This is on the premise that ‘invocation’ is akin to ‘deemed sale’ for it results in change in beneficial ownership and thus ‘acquisition’ within 6 months (prior to or subsequent to invocation) would constitute as opposite trade.

To overcome liquidity constraints for exercising ESOPs, the DPs often resort to obtaining financial assistance by pledging the shares that are allotted upon exercise of ESOPs. The guidance provided by SEBI on permissibility of such pledge transactions and the non-applicability of ‘contra-trade’ restrictions in case of subsequent ‘revocation’ and conditional applicability in case of ‘invocation’, would provide financial flexibility to DPs for exercising ESOPs and enable them to strategically use leverage for such exercise.



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