



**CHAPTER 6 - ADMINISTRATION OF STOCK EXCHANGES**

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## I. ALLOTMENT OF CODES TO STOCK EXCHANGES

1. Each of the stock exchanges in the country has been given a two-digit code which is incorporated in the twelve digit registration number given to the trading members. The code number for the exchange is the first two digits after the letters "INB" in the registration number.
2. In this regard, the codes allotted to the recognised Stock Exchanges are as under –

CODE	EXCHANGE NAME
01	Bombay Stock Exchange Limited
02	Ahmedabad Stock Exchange Limited
03	The Calcutta Stock Exchange Limited
04	Madras Stock Exchange Limited
05	Delhi Stock Exchange Limited
06	Hyderabad Stock Exchange Limited*
07	Madhya Pradesh Stock Exchange Limited
08	Bangalore Stock Exchange Limited*
09	Cochin Stock Exchange Limited*
10	The Uttar Pradesh Stock Exchange Association Limited
11	Pune Stock Exchange Limited*
12	Ludhiana Stock Exchange Limited*
13	The Gauhati Stock Exchange Limited*
14	Mangalore Stock Exchange*
15	<b>Magadh Stock Exchange Limited#</b>
16	Jaipur Stock Exchange Limited*



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17	Bhubaneswar Stock Exchange Limited*
18	Saurashtra Kutch Stock Exchange Limited*
19	Vadodara Stock Exchange Limited
20	OTC Exchange of India*
21	Coimbatore Stock Exchange Limited*
23	National Stock Exchange of India Limited
24	Inter-connected Stock Exchange of India Limited*
26	MCX Stock Exchange Limited
27	United Stock Exchange of India Limited

# Derecognized Stock Exchanges

\* Exited Stock Exchanges



## II. SUBSIDIARY MANAGEMENT BY STOCK EXCHANGE

### 2.1 Conditions for floating/promoting a subsidiary company by small stock exchanges

Small stock exchanges may promote / float a subsidiary company to acquire trading membership rights of other stock exchanges subject to the following conditions :

- a) The stock exchange and its trading members shall together hold 100% in nominal value of the equity share capital of the subsidiary company, with the exchange holding not less than 51% in nominal value of the equity share capital of the subsidiary company.
- b) The name of the subsidiary company shall not contain the words "Stock Exchange".
- c) The trading members of the stock exchange shall register themselves as sub-brokers of the subsidiary company to enable them to trade through the subsidiary company.
- d) The subsidiary company shall not undertake any dealing in securities on its own account.
- e) The subsidiary company shall register only the trading members of the stock exchange, which is promoting the subsidiary company as its sub-broker and no other client / sub-broker shall be entertained by the subsidiary company. All the stock exchanges which have set up subsidiaries have to make the necessary provisions in their rules, regulations and the byelaws to provide for the above requirement.
- f) The sub-brokers of the subsidiary company shall maintain separate deposit with the subsidiary company. The Base Minimum Capital deposited by the sub-broker with the promoting stock exchange shall not be transferred to the subsidiary company. This deposit to be maintained with the subsidiary company could be 25% in the form of cash and the balance 75% in irrevocable bank guarantees or Fixed Deposit Receipts (FDRs). The FDRs would be discharged in favour of the subsidiary/company and the subsidiary/company would be given a complete unencumbered and unconditional lien on the FDRs.
- g) The trading/exposure limit of the sub-brokers shall be based on the deposit received by the subsidiary company from the sub-brokers and these limits shall not exceed the limits as prescribed by the stock exchange of which the subsidiary company is a trading member.



- h) The subsidiary company shall collect margins from the sub-brokers for the payment of margins to the respective stock exchanges of which the subsidiary company is a trading member. The margin imposed by the subsidiary company on its sub-brokers shall not be less than the margin payable to the stock exchanges of which the subsidiary company is the trading member.
- i) The stock exchange shall incorporate the above mentioned conditions in the Memorandum of Association / Articles of Association of the subsidiary company.

## **2.2 Eligibility criteria to become trading member and/ or clearing member of the derivatives segment of BSE and NSE**

For becoming a trading and or clearing members of the derivatives segment, the eligibility criteria laid down by the stock exchanges and prescribed under the SEBI (Stock Broker and Sub-Broker) Regulations, 1992 have to be fulfilled including the conditions as follows:

- a) All the risk containment measures laid down by SEBI shall be followed by these subsidiary companies and
- b) These subsidiaries shall not undertake proprietary trade.

## **2.3 Subsidiary Management**

The subsidiary company shall be required to comply with minimum requirements in order to ensure that the transactions therein are conducted in a manner which is not detrimental to the interest of the investors and also to enable the subsidiaries to provide a safe and transparent mechanism for transactions in securities. The stock exchanges shall, therefore, ensure the following -

### **2.3.1 Governing Board**

- a) The Governing Board of the subsidiary company shall have the following composition:
  - i. The Chief Executive Officer (CEO) of the subsidiary company shall be a director on the Board of Subsidiary. The CEO shall not be a sub-broker of the subsidiary company or a trading member of the parent exchange.
  - ii. At least 50% of Directors representing on the Governing Board of subsidiary company shall not be sub-brokers of the subsidiary company or trading members of the promoter / holding exchange (parent



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exchange). These directors (excluding CEO) shall be called the Public Representatives.

- iii. The Public Representatives shall be nominated by the parent exchange (subject to prior approval of SEBI).
- iv. Public Representatives to be nominated as directors of subsidiary company shall be from amongst the persons of integrity having necessary professional competence and experience in the areas related to securities market.
- v. For the purpose of nomination as Public Representatives, Governing Board of the parent exchange may forward names of persons to SEBI for its approval. SEBI shall, however have right to nominate persons, whose names have not been forwarded by the Governing Board of the stock exchange.
- vi. The Public Representatives to be appointed as directors shall hold the office for a period of one year from the date of assumption of the office or till the Annual General Meeting of the subsidiary company whichever is earlier. However the Public Representative on the Boards of Subsidiary Companies will continue till the time new Public Representatives are appointed in their place.
- vii. The trading member directors on the Governing Board of the subsidiary company shall have a gap of at least one year after a consecutive period of two years before re-nomination on the Governing Board. As regards the other directors, there should be a gap of at least one year after a consecutive period of three years before re-nomination.
- viii. A person, who has completed two consecutive terms as a director of the parent exchange, shall not be eligible for election as a director of the subsidiary company, or for nomination as a member of any Committee of such subsidiary.
- ix. The parent exchange may appoint a maximum of two directors who are officers of the parent exchange. Such directors shall be in addition to 50% non-trading member directors (public representatives) mentioned above.

### 2.3.2 Chief Executive Officer

- a) The subsidiary company shall appoint a Chief Executive Officer (CEO) who shall not hold any position concurrently in the stock exchange (parent



exchange). The CEO of the subsidiary company shall be appointed by the Board of the subsidiary company through open advertisement. The educational qualification and experience shall be similar to that of the Chief Executive of the stock exchange and the stock exchange or subsidiary shall fix the remuneration of the CEO. The appointment, renewal of appointment and the termination of service of the CEO shall be subject to prior approval of SEBI.

### **2.3.3 Staff of the Subsidiary**

- a) The subsidiary company shall have its own staff none of whom shall be concurrently working for or holding any position of office in the parent exchange. The staff of the stock exchange may serve on deputation or loan basis etc. in the subsidiary company. However, such staff shall not be concurrently working for or holding any position of office in the stock exchange and the subsidiary company simultaneously. The stock exchange shall maintain necessary records to ensure that the staff is not working concurrently.

### **2.4 Responsibilities of Parent Exchange towards Subsidiary**

The parent exchange shall be responsible for all risk management of the subsidiary company and shall set up appropriate mechanism for the supervision of the trading activity of subsidiary company. Such mechanism shall include:

- a. Verification of compliance of margin payments and other risk management measures applicable to the subsidiary company as a trading member of another stock exchange.
- b. Reporting requirements between the subsidiary and the parent exchange, such as placing quarterly reports on the financials and accounts of the subsidiary and on review of operations of the subsidiary before the Governing Board of the stock exchange at its meetings.
- c. Conducting half-yearly inspections of the subsidiary and 20% of its sub-brokers and placing such reports before the Governing Board of the stock exchange.
- d. Handling of investor complaints of sub-brokers of the subsidiary company.

Submission of a half-yearly certificate on risk management system being followed by their subsidiary. This certificate should be furnished to





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SEBI on a half yearly basis by July 15 of each year for certificate as on June 30 and by January 15 for certificate as on December 31.

### **2.5 Access to unauthorized persons by the members of subsidiaries**

Appropriate penal action including fine, suspension of trading rights of the subsidiaries/sub-brokers, etc., shall be initiated, in case, any of the members of the exchange who are sub-brokers of the subsidiary is found to be indulging in activities viz. providing unauthorized access to persons for illegal trading and/or providing their own terminal for illegal trading. The exchanges shall exercise vigilance and surveillance on their subsidiaries/its members to ensure that the members do not indulge in these types of activities.



**III. ADMINISTRATION AND GOVERNANCE FOR STOCK  
EXCHANGES AND CLEARING CORPORATIONS**

**3.1 Procedural norms on Recognitions, Ownership and Governance for Stock  
Exchanges and Clearing Corporations.<sup>1</sup>**

The Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 (henceforth referred to as 'SECC Regulations') were notified on June 20, 2012. In terms of the powers under regulation 51 of the SECC Regulations, the Board hereby issues the following instructions for the effective implementation of the SECC Regulations. This circular shall be read in conjunction with the Securities Contracts (Regulation) Act, 1956 (SCRA), Securities Contracts (Regulation) Rules, 1957 (SCRR), SECC Regulations and other applicable laws.

**PART - A**

**RECOGNITION**

**1. Stages Application for seeking recognition as a Stock Exchange/  
Clearing Corporation:-**

1.1 An applicant seeking recognition as a stock exchange/ clearing corporation shall substantiate its capability to fulfill all the requirements laid down under SCRA, SCRR and regulation 7 of the SECC Regulations at the time of making the application.

1.2 Further, for the purpose of grant of in-principle approval under regulation 7(5) of the SECC Regulations, the Board may take into account the factors which it may deem fit in the interest of the securities market. For this purpose, the Board may consider the information and documents including but not limited to the following:-

- Business feasibility plan for the next five years,
- Net worth certificate/ financial books and bank account details,
- Detailed write-up on each of its functions,
- Details of authorised officials along with specimen signatures of the authorised signatories,
- Proposed organisational structure,
- Necessary undertakings,
- Manpower planning,

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<sup>1</sup> Circular No. CIR/MRD/DSA/33/2012 dated December 13, 2012



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- Background and necessary information (as specified herein) to establish that its shareholders/promoters are fit and proper persons, Information regarding its Office set-up, Appointment of Managing Director after following due process

1.3 Before grant of final approval, in addition to the above, the applicant should satisfy the Board with regard to compliance of the following :

- a) Appointment of heads of key departments such as legal, listing, member registration, trading and surveillance in case of a stock exchange, and
- b) Appointment of heads of key departments such as risk, legal, clearing and settlement, in case of a clearing corporation.
- c) Satisfactory compliance with observations of SEBI during inquiry/ inspection by SEBI.
- d) Any other requirement as SEBI may deem necessary for disposal of the application .

1.4 After grant of recognition, the stock exchange can commence trading operations with a minimum of 50 trading members and the clearing corporation can commence clearing and settlement operations with a minimum of 25 clearing members.

**2. Bye-laws of a Clearing Corporation:-** A clearing corporation shall in terms of applicable provisions of section 9 of the SCRA and regulation 4 of SECC Regulations make bye-laws, providing *inter alia* for the following:-

- a) the timings for pay-in and pay-out of funds and securities;
- b) rules for clearing and settlement;
- c) risk management mechanism;
- d) process of netting, novation and guarantee for settlement of trades;
- e) norms for contribution into and utilisation of the Fund in terms of regulation 39 of SECC Regulations ;
- f) rights and obligations of the clearing members *vis-a-vis* the clearing corporation, other clearing members, the trading members and clients of such trading members;
- g) criteria for admission and regulation of clearing members;
- h) default handling mechanism;
- i) Committees as mentioned in para 7 of this section



- j) any other matter as may be specified by SEBI.

**PART -B**

**3. ACTION PLAN FOR ACHIEVING NETWORTH:-**

- 3(a) A recognised stock exchange having a networth of less than Rs.100 crore, as on the date of commencement of the SECC Regulations, shall,, submit its plan duly approved by its shareholders to SEBI for achieving the networth in terms of regulation 14 of SECC Regulations, within 90 days from the date of this circular.
- 3(b) A clearing corporation which has made application for recognition in terms of second proviso of regulation 3 of the SECC Regulations and has a networth of less than Rs. 300 crore shall submit its plan duly approved by its shareholders to SEBI, for achieving the networth in terms of regulation 14 of the SECC Regulations, within 90 days from the date of this circular.

**PART -B**

**OWNERSHIP**

**4. Application for grant of approval for shareholding beyond 2% or 5%:-**

- 4.1 A shareholder seeking SEBI's approval for holding more than 2% or 5% of paid up equity share capital of a stock exchange or clearing corporation shall submit the following particulars:-
- Name
  - Address
  - Details of employment/ business, if any:
  - SEBI registration number,if any.
  - Details of registration with other statutory authorities,.
  - Declaration regarding the fulfillment of requirements of regulation 20 of SECC Regulations.
  - Details of action /penalties taken/imposed against/upon him/it by any statutory authority in India or abroad.
  - Details of activities that may, in the opinion of the shareholder lead to his/its disqualification.



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- i) Association with trading members/clearing members of stock exchanges/clearing corporations.
  - j) Cases pending before any Court, Tribunal or any other statutory authority in India or abroad, if any.
  - k) Previous approvals from SEBI as fit and proper, if any.
- 4.2 The stock exchange/clearing corporation may also lay down any fit and proper criteria without diluting and limiting the principles and criteria laid down in regulation 20 of SECC Regulations.
- 4.3 The stock exchange/clearing corporation application shall ensure that all their shareholder are fit and proper persons.
- 4.4 The application for approval under clause 4.1 shall be submitted to SEBI through the stock exchange/clearing corporation concerned. The stock exchange/clearing corporation shall verify the declarations/undertakings given by the shareholders and forward the application which is, in its opinion, fit for approval along with its recommendation for SEBI's approval.

### **5. Monitoring of shareholding limits:-**

- 5.1 The stock exchange/clearing corporation shall put in place a monitoring mechanism to ensure compliance with the shareholding restrictions prescribed in SECC Regulations at all times. stock exchange/clearing corporation shall:-
- a) Disseminate on its website, the number of shares available in the non-public, FII and FDI category. The information shall also be disseminated by the stock exchange on which the shares may be listed.
  - b) Check the shareholding data on a periodic basis to ensure that the shareholding restrictions specified under Chapter IV of the SECC Regulations are complied with at all times.
  - c) Upon breach of shareholding limits, they shall intimate the same to SEBI within 7 days.



**PART-C**

**GOVERNANCE**

**6. Procedure for appointment:-**

6.1 All directors while seeking approval shall submit to the stock exchange/clearing corporation the following details:-

- a) Name
- b) Address
- c) Educational qualification
- d) Details of employment/ Occupation, past and present
- e) Details of other directorships
- f) DIN No.
- g) Declaration regarding the fulfillment of requirements specified under regulation 20 of SECC Regulations, Securities and Exchange Board of India.
- h) Declaration confirming compliance of Regulation 23(7) read with Regulation 2(1)(b) of SECC Regulations, in respect of non association with trading member or clearing member.
- i) Details of regulatory action taken against by any statutory authority in India.
- j) Details of activities that may in the opinion of the director, lead to his disqualification.
- k) Association with trading members/clearing members of stock exchanges/clearing corporations.
- l) Disclosure of the names of his dependents associated with the securities market as member, sub-broker, authorized person or holding any SEBI registration.
- m) An undertaking that he shall abide by the code of conduct and code of ethics prescribed in Part A and Part B of Schedule II to SECC Regulations.
- n) In the case of public interest directors, consent letters for acting as a public interest director. o) Pending / completed criminal cases pending before any authority in India or abroad, if any.



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6.1.1 The stock exchange/ clearing corporation shall forward the above details to SEBI while recommending their names alongwith the minutes of the governing board meeting where their name/s was approved, copy of the shareholder's resolution (wherever applicable), a confirmation by the stock exchange/ clearing corporation that they are fit and proper persons in terms of their fit and proper criteria and are not associated with any trading member or clearing member in terms of regulation 23(7) read with regulation 2(1)(b) of SECC Regulations.

### 6.2 Managing Director / Executive Director:-

6.2.1 The stock exchange/ clearing corporation shall constitute a Committee for the selection of the CEO /Managing Director / Executive Director, as the case may be. The managing director shall be selected through open advertisement in all editions of atleast one national daily from amongst persons qualified in the fields of capital market/ finance/ management and possessing sufficient experience. In case of re-appointment, or extension the stock exchange/ clearing corporation shall apply to SEBI two months before the last working day of such Managing Director.

6.2.2 In case a vacancy of managing director arises due to unforeseen reasons, the stock exchange/ clearing corporation shall forward the new names to SEBI within 60 days from the date of submission of resignation or such vacation of office.

### 6.3 Public Interest Directors:-

6.3.1 The names of public interest directors shall be forwarded to SEBI after the approval of the Board of the stock exchange/clearing corporation. The shareholders approval shall not be necessary. A minimum of two names shall be submitted to SEBI for each vacancy of public interest directors.

6.3.2 The stock exchange/ clearing corporation shall ensure that public interest directors are selected from diverse field of work. While deciding to propose a particular person as a public interest director, the stock exchange/ clearing corporation shall also take into account the following factors:

- a) Qualification in the area of law, finance, accounting, economics, management, administration or any other area relevant to the financial markets.
- b) Atleast one person may be inducted having experience and background in finance / accounts who may preferably be inducted in the audit committee.



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- c) Persons currently holding positions of trust and responsibility in reputed organisations or person who have retired from such positions.
- d) Persons who are likely to have interested positions in commercial contracts and financial affairs of stock exchanges, may be excluded. Also, persons who are regular traders/speculators in the market or are director in the board of the promoter entity of the Stock Exchange or Clearing Corporation, shall be excluded.

6.3.3 Chairperson of the stock exchange/ clearing corporation shall be appointment with the prior approval of SEBI.

6.3.4 Public interest directors shall not be simultaneously on the board of any other stock exchange/ clearing corporation or their subsidiary.

6.3.5 Public interest directors shall peruse the relevant laws, code of conduct, code of ethics, etc and submit an undertaking to the stock exchange/clearing corporation that they are aware of their role, responsibilities and obligations. The stock exchange/clearing corporation shall also provide at least seven days of training to every public interest director each year.

6.3.6 In case of extension of the term of the public interest director or appointment of a new public interest director, the stock exchange/ clearing corporation shall apply to SEBI two months before the expiry of the term. In addition to the other requirements prescribed herein, the application for extension of term of the public interest director shall be accompanied with, his attendance details on meetings of various mandatory committees and on the governing board of the stock exchange / clearing corporation, reasons for waiver of the cooling off period.

6.3.7 The public interest director shall not be subject to retirement by rotation.

6.3.8 The existing public interest director shall continue holding the post, till a new public interest director is appointed in his place.

6.3.9 In case of existing public interest directors, who are in their second term, they may complete their term.

### 6.4 Share Holder Directors





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- 6.4.1 The names of persons to be appointed as share holder directors shall first be approved by the governing board of the stock exchange/ clearing corporation, followed by shareholders approval before submitting the same to SEBI for approval.
- 6.4.2 The manner of election, appointment, tenure, resignation, vacation, etc. of shareholder directors shall be governed by the Companies Act, 1956 save as otherwise specifically provided under the SECC Regulations or in accordance with the Securities Contracts (Regulation) Act, 1956, circulars issued there under.
- 6.5 **Selection of trading members/clearing members on the Advisory Committee to the governing board:-** Prior to appointment to the advisory committee, the governing board of the stock exchange/ clearing corporation shall satisfy itself that the trading members/ clearing members are fit and proper persons in terms of regulation 20 of the SECC Regulations. The governing board shall frame the eligibility norms, term of office, cooling off period etc., of members of the advisory committee in consultation with the trading members/clearing members of the stock exchange/ clearing corporation.
- 6.6 **Appointment of Compliance Officer:-** The stock exchange/ clearing corporation shall appoint a compliance officer in terms of regulation 32 of SECC Regulations within 30 days from the date of this circular.
- 6.7 **Appointment of key management personnel:-** The stock exchange/ clearing corporation shall ensure that all key management personnel employed by them are fit and proper.
- 6.8 **General conditions on appointment of directors:-**
- 6.8.1 The stock exchange/ clearing corporation shall complete the appointment process within 30 days from SEBI's nomination/approval for directors and submit a compliance report within one week from the date of appointment.
- 6.8.2 In case any other official of the stock exchange/ clearing corporation is appointed on the governing board in addition to the Managing Director, the same shall be subject to the approval of shareholders and SEBI, in that order.

### 7. Statutory Committees:

- 7.1 In order to ensure effective oversight of the functioning of stock exchanges, SEBI, from time to time, through various circulars has mandated the formation of various committees by stock exchanges. A list of all such mandatory committees along with their new composition and function is placed under **Annexure A** to this circular. The list of



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mandatory committees for clearing corporations is placed under **Annexure B** to this circular.

- 7.2 The stock exchanges and clearing corporations shall form the respective committees in accordance with the composition prescribed therein and accordingly no approval from SEBI is required. The existing stock exchange / clearing house of a stock exchange and person who clears and settles trades of a recognized stock exchange shall submit a confirmation within three months from the date of this circular. The stock exchange and clearing corporation shall submit a confirmation within three months from the date of their recognition. The confirmation shall be submitted within three months with regard to the formation and composition of such committees. Any other conditions pertaining to the committees prescribed under the earlier circulars shall continue to apply. In addition to the above lists, the committees that are mandated for listed companies shall apply *mutatis mutandis* to stock exchanges and clearing corporations.
- 7.3 The stock exchanges/ clearing corporations shall lay down the policy for the frequency of meetings, quorum, etc., for the statutory committees. The meeting shall be conducted with atleast one public interest director being present except in the case of oversight committees wherein minimum 50% of the public interest directors need to be present. In the case of public interest directors committee, all public interest directors shall be present.
- 7.4 Independent external persons appointed to committees: The independent external persons shall be from amongst the persons of integrity, having a sound reputation and not having any conflicts of interests. They shall be specialists in the field of work assigned to the committee. The stock exchange/ clearing corporation shall frame the guidelines for appointment, tenure, code of conduct, etc., of independent external persons. Extension of the tenure may be granted at the expiry of the tenure pursuant to a review of the contribution, record of attendance at meetings, etc.
- 7.5 SEBI vide circular dated May 31, 2000 had mandated appointment of a governing council / executive committee for the Derivative Exchange/Segment of the stock exchanges. In light of the governance norms and the oversight committees prescribed under the SECC Regulations, the requirement of governing council is not mandatory.
- 7.6 The present functioning of the defaults committee shall continue, however, the same shall constitute of a majority of public interest directors.



7.7 The stock exchange and clearing corporation shall submit details about the above mentioned committees by way of Monthly development report/Quarterly development report.

**8. Norms for compensation policy:-**

8.1 Regulation 27 of the SECC Regulations mandates that the compensation policy for key management personnel of stock exchange/ clearing corporation shall be in accordance with the norms specified by SEBI. The compensation norms, in this regard, shall be as follows:-

- a) The variable pay component will not exceed one-third of total pay.
- b) 50% of the variable pay will be paid on a deferred basis after three years.
- c) ESOPs and other equity linked instruments in the stock exchange/ clearing corporation will not form part of the compensation for the key management personnel.
- d) The compensation policy will have malus<sup>2</sup> and clawback arrangements<sup>3</sup>.

8.2 Apart from the above, the compensation policy of the stock exchange/ clearing corporation shall take into consideration the following:

- financial condition / health of the stock exchange/ clearing corporation,
- average levels of compensation payable to employees in similar ranks,
- should not contain any provisions regarding incentives to take excessive risks over the short term,
- revenues, net profit of the stock exchange/ clearing corporation,
- comparable to the industry standards,
- role and responsibilities of the key management personnel,
- periodic review

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<sup>2</sup> A malus arrangement permits the stock exchange/clearing corporation to prevent vesting of all or part of the amount of a deferred remuneration.

<sup>3</sup> A clawback is a contractual agreement between the employee and the stock exchange/clearing corporation in which the employee agrees to return previously paid or vested remuneration to the stock exchange/clearing corporation under certain circumstances.



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- 8.3 The stock exchange shall confirm to SEBI within three months from the date of this circular that the compensation for the key management personnel is in accordance with the norms specified above.
- 8.4 Further, at the time of seeking approval of SEBI for the appointment of the managing director, the stock exchange/ clearing corporation shall seek approval for the compensation of the managing director from SEBI. The compensation of the Managing Director of a stock exchange already appointed with the approval of SEBI shall be in accordance with the compensation policy as mentioned above. The same shall be submitted to SEBI for approval within three months from the date of this circular.
- 8.5 The requirement of disclosures under Regulation 27(5) of the SECC Regulations shall be with effect from the financial year 2012-13.

### 9. Regulatory departments:-

- 9.1 Regulation 28 of the SECC Regulations mandate segregation of regulatory departments from other departments. For this purpose, an indicative list of regulatory departments is given below. The governing board of the stock exchange/ clearing corporation may specify any other department having a regulatory function in addition to the list given below as a regulatory department.
- 9.2 Departments handling the following functions shall be considered as regulatory departments in a Stock Exchange:-
- surveillance,
  - listing,
  - member registration,
  - compliance,
  - inspection,
  - enforcement,
  - arbitration,
  - default,
  - investor protection
  - investor services,
- 9.3 Departments handling the following functions shall be considered as regulatory departments in a Clearing Corporation:-
- Risk management,



- b) member registration,
  - c) compliance,
  - d) inspection,
  - e) enforcement,
  - f) default,
  - g) investor protection,
  - h) investor services,
- 9.4 The stock exchange /Clearing Corporation shall ensure that the regulatory departments viz., surveillance, inspection, risk management, default, investor protection, investor services etc, are sufficiently staffed with adequate number of persons having professional and relevant experience at all times.

## **PART- D**

### **MISCELLANEOUS**

- 10. Procedure for submitting amendments to Articles/Rules/Bye-laws/Regulations, etc, for SEBI's approval:-** The amendments to the Memorandum, Articles of Association, Rules, bye-laws, Regulations (as may be applicable) etc., of the stock exchange/clearing corporation, in terms of SCRA, SCRR, other applicable provisions in this regard, shall be submitted to SEBI for approval, subsequent to the following. The proposed amendment/s shall first be approved by the governing board of the stock exchange/clearing corporation, followed by shareholders approval (wherever applicable), then published in the Gazette of India (wherever applicable) and the respective State and then shall be submitted to SEBI for approval. The proposal shall be accompanied by the minutes of the governing board, the shareholder's resolution and public criticism. However, in case the amendments are pursuant to Regulations, circular etc, issued by SEBI, the same shall not be subject to shareholder's approval.
- 11. Internal manual for conflict resolution:** The stock exchange/clearing corporation shall have an internal manual covering the management of conflicts between commercial and regulatory functions of the stock exchange/clearing corporation. The stock exchange/ clearing corporation shall put in place a policy for comprehensive training and awareness of its employees on the various conflicts of interests involved in the functioning of its regulatory departments. Further, the entire conflict management



framework shall periodically be reviewed and be strengthened based on the observations of such review.

**12. Report to SEBI:-** The public interest directors shall identify important issues which may involve conflict of interest for the stock exchange/clearing corporation, may have significant impact on the functioning of SE/CC, may not be in the interest of market. The same shall be reported to SEBI.

**13. Disclosure of Transactions:** In terms of the code of conduct / code of ethics under SECC Regulations, every director, their family, firms / corporate entities in which the Directors hold twenty percent or more beneficial interest or hold controlling interest, shall disclose all transactions / dealings in securities to the stock exchange/clearing corporation. The details including time period for the disclosure in this regard shall be prescribed by the stock exchange/clearing corporation, however the time period for disclosure shall not be later than fifteen days of the transaction / dealing.

**14. Clarifications regarding implementation of SECC Regulations:-**

14.1 In respect of regulation 23(7) following is clarified

- a) no trading member or clearing member, or their associates and agents, irrespective of the stock exchange/ clearing corporation of which they are members, shall be on the governing board of any recognised stock exchange or recognised clearing corporation.
- b) a person who is a director in an entity, that itself is a trading member or clearing member or has associate(s) as trading members or clearing members in terms of regulation 2(1)(b), he/she will deemed to be trading member or clearing member.
- c) However, a person who is an independent director on the board of a Bank or Financial Institution, which is in public sector or which either has no identifiable ultimate promoter or the ultimate promoter is in Public Sector or such Banks or Financial Institutions has well diversified shareholding, and it / its associate is a Clearing Member and / or Trading Member, the applicant will not be deemed to be Clearing Member and / or Trading Member or their associate for the purpose of Regulation 23(7). However, the appointment shall be subject to fulfilment of other requirements and satisfaction of SEBI.
- d) Further, a person who is an independent director on the board of the Public Limited Company whose other independent director(s) are also independent director in an entity, which is trading or clearing member, the person will not be deemed to be associate of trading member or clearing member subject to that Public Limited Company



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does not have any other association with trading member or clearing member.

e) Recognised Stock Exchange and recognised clearing corporation, shall monitor and ensure the compliance of the Regulation 23(7) on continuous basis, to ensure that directors appointed, on their governing board, will not get associated with Trading Member or Clearing Member after approval and appointment,

14.2 For the purpose of Regulation 27(6) , it is clarified that in terms of the said Regulation, the tenure refers to the period of posting as key management personnel in a regulatory department, which shall be for a fixed period.

14.3 For the purpose of regulation 35, the Governing Board of a recognised stock exchange or a recognised clearing corporation shall confirm compliance of that regulation in writing on half yearly basis.

### **3.2 Facilitating transaction in Mutual Fund schemes through the Stock Exchange Infrastructure<sup>4</sup>**

1. In order to enable the mutual fund distributors also to leverage the stock exchange platform so as to improve their reach and mutual fund distributions, it has been decided to allow mutual fund distributors to use recognised stock exchanges' infrastructure to purchases and redeem mutual fund units directly from Mutual Fund/ Assets Management Companies on behalf of their clients. This would be in addition to the existing channels of mutual funds distribution.
2. For the aforesaid purpose, only a mutual fund Distributor registered with Association of Mutual Funds in India (AMFI) and who has been permitted by the concerned recognised stock exchange, (MF distributor) shall eligible to use recognised stock exchanges' infrastructure to purchases and redeem mutual fund units directly from Mutual Fund/ Assets Management Companies.
3. The recognised stock exchange shall grant permission on a request made by a AMFI registered mutual fund distributor on the basis of criteria including fee, code of conduct, etc. as laid down by it.
4. The MF distributors shall not handle payout and pay in of funds as well as units on behalf of investor. The recognised stock exchange shall put necessary

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<sup>4</sup> Circular No. MRD/DSA/32/2013 dated October 04, 2013  
Circular No. MRD/DSA/33/2014 dated December 09, 2014



system in place to ensure that pay in will be directly received by recognised clearing corporation and payout will be directly made to investor account. In the same manner, units shall be credited and debited directly from the demat account of investors.

5. In order to broad base the reach of this platform, it is decided to permit non-demat transactions also in the Mutual fund through stock exchange platform.
6. The respective recognised stock exchanges, recognised clearing corporations and depositories shall provide detailed operating guidelines for MF distributor to facilitate the above.

### **3.3 Standard Operating Procedure for Suspension of Trading<sup>5</sup>**

1. Based on general feed- back received from various stakeholders, it has been decided to streamline the processes and procedures with regard to actions for non-compliances of certain listing conditions which have so far been considered as grounds for suspension of trading by the recognised stock exchanges. Accordingly, it has been decided that recognised stock exchanges shall use imposition of fines as action of first resort in case of such non compliances and invoke suspension of trading in case of subsequent and consecutive defaults. In order to maintain consistency and uniformity of approach in this regard, it has been decided to lay down, in the bye -laws of the recognised stock exchanges, the following: -
  - (i). Uniform fine structure for non-compliance of certain clauses of the listing agreement as per Annexure I;
  - (ii). Standard Operating Procedure (SOP) for suspension and revocation of suspension of trading in the shares of such listed entities as per Annexure II.
2. Further, in order to ensure effective enforcement of listing conditions, it is felt to bring in place appropriate system to enforce the liabilities of listed entities and their promoters/promoter group as disclosed to the concerned recognised stock exchange under clause 35 of the Listing Agreement. It is also felt desirable that while the relevant disclosures are not made, such promoters/promoter group should not exit from the listed entity. Accordingly, it has been decided that during the process of the suspension

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<sup>5</sup> Circular No. MRD/DSA/31/2013 dated September 30, 2013





of the trading/ revocation of trading as provided in the SOP, the concerned recognised stock exchange shall intimate the details of the concerned non-compliant entity and its promoter /promoter group to the depositories. On receipt of such intimation, the depositories shall freeze or unfreeze, as the case may be, the entire shareholding of the promoter and promoter group in such entity.

3. Every recognised stock exchanges shall put in place the system to monitor and review the compliance of respective listing conditions by the listed entities. It is hereby further clarified that each recognised stock exchange, where the shares of the concerned entity are listed, shall enforce the compliance of respective listing conditions in terms of the requirements of this circular.
4. The recognised stock exchanges shall disclose on its website the action/s taken against the listed entities for non-compliance/s of the listing conditions; including the details of respective requirement, amount of fine, period of suspension, freezing of shares, etc.

### **3.4 Exit Policy for De-recognized/ Non-operational Stock Exchanges<sup>6</sup>**

#### **1. Process of De-recognition and Exit**

- 1.1 Exchanges may seek exit through voluntary surrender of recognition.
- 1.2 Stock exchanges where the annual trading turnover on its own platform is less than Rs 1000 Crore can apply to SEBI for voluntary surrender of recognition and exit, at any time before the expiry of two years from the date of issuance of this Circular.
- 1.3 If the stock exchange is not able to achieve the prescribed turnover of Rs 1000 Crores on continuous basis or does not apply for voluntary surrender of recognition and exit before the expiry of two years from the date of this Circular, SEBI shall proceed with compulsory de-recognition and exit of such stock exchanges, in terms of the conditions as may be specified by SEBI.
- 1.4 Stock Exchanges which are already de-recognised as on date, shall make an application for exit within two months from the date of this circular. Upon failure to do so, the de-recognized exchange shall be subject to compulsory exit process.

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<sup>6</sup> Circular No. MRD/DSA/14/2012 dated May 30, 2012  
Circular No. MRD/DSA/18/2014 dated May 22, 2014



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2. With regard to exit option to shareholders of exclusively listed companies, on stock exchanges seeking de-recognition and/ or exit and de-recognised stock exchanges, the following process should be followed by the exclusively listed companies. Such an exchange shall monitor the process given below until its exit:
  - 2.1 Exclusively listed companies shall list on any other recognized stock exchange. Such other recognized stock exchanges may facilitate the listing of exclusively listed companies, and, if required, carry out changes to their listing eligibility criteria, in the interest of investors. Stock exchanges may have differential listing criteria for such exclusively listed companies in respect of following criteria viz, Market Capitalization, Dividend paying track record, profitability, and paid-up capital. In this regard, the stock exchanges shall issue the differential listing eligibility criteria for such exclusively listed companies.
  - 2.2 Nation-wide stock exchanges shall facilitate the listing of these companies on priority basis in a time bound manner. For this purpose, these nation-wide stock exchanges shall immediately create a separate dedicated cell to expedite processing the listing requests from such companies.
  - 2.3 Such exclusively listed companies may also opt for voluntary delisting before the de-recognition of the stock exchanges by following the existing delisting norms of SEBI in terms of SEBI (Delisting of Equity Shares) Regulations, 2009. Nation-wide stock exchanges shall provide a platform to these companies to facilitate reverse book building for voluntary delisting using their platform. With a view to facilitate voluntary delisting, if they so desire, it is clarified that for such companies as referred to at Para 2(ii) above, the requirements of 'Minimum Public Shareholding' prescribed in Rules 19(2)(b) and 19A of the Securities Contracts (Regulation) Rules, 1957 and Clause 40A of the Listing Agreement, shall not be applicable.
  - 2.4 In case of companies exclusively listed in the non-operational stock exchanges that are not traceable or where the data available is more than three years old, the process of inclusion in list of companies identified as 'Vanishing' (maintained by Ministry of Corporate Affairs) may be initiated by the respective stock exchanges.
  - 2.5 The exclusively listed companies, which fail to obtain listing on any other stock exchange, which do not voluntarily delist or which are not considered as 'Vanishing companies' will cease to be a listed company and will be moved to the dissemination board by the exiting stock exchange. It shall be the responsibility of the exchanges which are being derecognized either on voluntary or compulsory basis, to place their exclusively listed companies on the dissemination board. These exchanges shall ensure that the



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database of the exclusively listed company is transferred to SEBI and to those stock exchanges on whose dissemination board, the shares of these companies are available.

- 2.6 In the interest of investors of exclusively listed companies, a mechanism of dissemination board will be set-up by stock exchanges having nationwide trading terminals.
- 2.7 Dissemination Board: Under this mechanism, a willing buyer and seller will be given an opportunity to disseminate their offers using the services of brokers of stock exchanges hosting dissemination board. The mechanism of dissemination board shall be given wide publicity for the benefit of the investors of exclusively listed companies. Every stock exchange hosting a dissemination board shall clearly bring out the guidelines in respect of the Dissemination Board on its website.

### Features of Dissemination Board:

- i. Exiting Stock Exchanges will be required to enter into an agreement with at least one of the stock exchanges with nationwide trading terminals providing the Dissemination Board. The exiting stock exchange shall pay a one-time fee for the arrangement as may be decided in the agreement. The fee may be based on number of companies moving on to the dissemination board, number of public shareholders in those companies, their paid up capital etc.
- ii. Exchanges having nationwide trading terminal will not have listing agreement with these companies. However, information received from such companies will be disseminated.
- iii. The buyers/ sellers will be required to register with broker of the exchange where the dissemination board is set up.
- iv. No contract note is required to be issued for such transactions.
- v. The matched trades will not be settled through the stock exchange/ Clearing Corporation mechanism and hence, there will be no recourse to the Settlement/ Trade Guarantee Fund and Investor Protection Fund of the Exchange for the trades on Dissemination Board.
- vi. The exiting Stock Exchange as well as exchange providing dissemination board will give wide publicity about the dissemination board in one leading national daily and one local daily.

The stock exchanges hosting dissemination board shall issue uniform operational guidelines for the dissemination board.

### 3. Members of Stock Exchanges to continue trading through Subsidiary



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- 3.1 In case of de-recognition of a stock exchange, the exchange may provide trading opportunity to their trading members to trade on stock exchanges having nationwide terminals through their subsidiary company, which will function as normal broking entity in terms of SEBI circular dated December 29, 2008. In case of de-recognition, subsidiary company shall continue to function as broking entities in compliance of, *inter alia*, the provisions of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992.
- 3.2 In case of de-recognition, the MoU mechanism, if any, between a stock exchange not having nationwide trading terminal and a stock exchange having nationwide trading terminal, shall be discontinued and in such cases the trading members of erstwhile stock exchanges will gain access to exchanges having nationwide terminals through membership of the existing subsidiary company.
4. Treatment of the Assets of de-recognized exchange
  - 4.1 De-recognized stock exchange (voluntarily de-recognized or compulsorily de-recognized) is permitted to distribute its assets subject to certain conditions as laid down in this circular, as well as other guidelines that may be issued by SEBI, Government(s), or any other statutory authority from time to time.
  - 4.2 For the purpose of valuation of the assets of the stock exchange, a valuation agency shall be appointed by SEBI.
  - 4.3 The quantum of assets for distribution will be available after payment of statutory dues including income tax, transfer of funds as specified in para 6.1, payment of dues as specified in para 6.2, refund of deposit (refundable) to the stock brokers including their initial contribution/ deposit to Settlement Guarantee Fund / Trade Guarantee Fund (SGF/ TGF), and contribution to SEBI as specified in para 5.4. However, the remainder of SGF/ TGF after refunding to stock broker as mentioned above shall be considered for the purpose of valuation of the assets of the exchange.
  - 4.4 In case of de-recognition and exit, the stock exchange shall contribute upto 20% of its assets (after tax) towards SEBI Investor Protection and Education Fund (IPEF) for investor protection and in order to cover future liabilities, if any. The contribution may be decided by SEBI taking into account, *inter alia*, the governance standards of the stock exchange and estimation of future liabilities.
  - 4.5 All stock exchanges including de-recognised stock exchanges shall not alienate any assets of the exchange without taking prior approval of SEBI.
5. Other Conditions:



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- 5.1 The exchange shall transfer Investor Protection Fund, Investor Services Fund, 1% security deposit available with them to the SEBI IPEF. The 1% security deposit shall subsequently be returned to the issuer company in due course on satisfying the prescribed conditions.
- 5.2 The exchange shall pay following dues to SEBI:
  - 5.2.1 The dues outstanding to SEBI including 10% of the listing fee and the annual regulatory fee.
  - 5.2.2 The outstanding registration fees of brokers/trading members of such de-recognised stock exchanges as specified in the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 till the date of such de-recognition.
    - 5.2.2.1 Dues of the brokers to SEBI shall be recovered by the exchange out of the brokers' deposits / capital / share of sale proceeds / winding up proceeds / dividend payable, etc. available with the exchange.
    - 5.2.2.2 The exchange will be liable to make good any shortfall in collection of dues of the brokers to SEBI.
- 5.3 In case the stock exchange, after de-recognition, continues as a corporate entity under the Companies Act, 1956, it shall not use the expression 'stock exchange' or any variant in its name or in its subsidiaries name so as to avoid any representation of present or past affiliation with the stock exchange. The subsidiaries of de-recognised stock exchanges may continue to function as any other normal broking entity, managed by its own board, with a suitable change of name so as to avoid any representation of any present or past affiliation with the stock exchange.
- 5.4 Sale/distribution/transfer of assets/winding up of such exchanges/companies shall be subject to the applicable laws in force.
- 5.5 The stock exchange shall set aside sufficient funds in order to provide for settlement of any claims, pertaining to pending arbitration cases, arbitration awards, not implemented, if any, liabilities/claims of contingent nature, if any, and unresolved investors complaints/grievances lying with the exchange.
6. SEBI may allow de-recognition and/ or exit to stock exchanges subject to additional conditions as may be decided by SEBI in the interest of trade or in the public interest including securities market.
7. In case of stock exchange seeking exit, through voluntary surrender of recognition or after being compulsorily de-recognized by SEBI, an appropriate order shall be passed by SEBI.



**IV. ARBITRATION AND INVESTOR GRIEVANCE REDRESSAL  
MECHANISM**

**1. Investor Grievance Redressal Mechanism at Stock Exchanges<sup>7</sup>**

- i) In light of the concerns expressed by investors and to facilitate early redressal of investor grievances, it has been decided to mandate that stock exchanges having nationwide terminals (such as NSE, BSE, MCX-SX and USEIL), functional stock exchanges having trading volumes, stock exchanges entering into MOUs with other exchanges and stock exchanges intending to recommence trading operations shall constitute IGRC at every investor service centre.

The composition of the IGRC shall be as follows:-

- a. The IGRC shall comprise of a single person for claims upto Rs. 25 Lakh, whereas, for claims above Rs. 25 Lakh, the IGRC shall comprise of three persons.
  - b. The IGRC shall comprise of independent persons with qualifications in the area of law, finance, accounts, economics, management or administration and experience in financial services, including securities market.
  - c. Further, the three members Committee shall comprise of at least one technical expert for handling complaints related to technology issues (such as internet based trading, algorithmic trading, etc).
  - d. The members of IGRC shall not be associated with a trading member in any manner.
  - e. The disclosures and code of conduct prescribed under para 3.4 and 4 of SEBI circular Ref. No CIR/MRD/DSA/24/2010 dated August 11, 2010, shall be applicable, as far as may be, to members of IGRC also.
- ii) It is, further, advised that apart from the investor services centres (ISCs) providing *inter alia* arbitration facility (arbitration as well as appellate

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<sup>7</sup> CIR/MRD/DSA/03/2012 dated January 20, 2012  
CIR/MRD/ICC/21/2013 dated July 05, 2013  
CIR/MRD/ICC/30/2013 dated September 26, 2013



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arbitration) which are being provided at 8 centres viz. Delhi, Mumbai, Kolkata, Chennai, Ahmedabad, Hyderabad, Kanpur and Indore may be broadened. With a view to extend these facilities, it has been decided to increase the number of ISCs. Increasing the number of centres shall reduce the travelling and other incidental costs to investors in case they choose to avail these facilities. The following is decided:

- a. Stock Exchanges with nation-wide terminals shall set up ISCs at Bangalore, Pune, Jaipur, Ghaziabad, Lucknow, Gurgaon, Patna and Vadodara. These centres shall provide investor grievance redressal mechanism and arbitration facility (arbitration as well as appellate arbitration).
  - b. The ISCs at Bangalore, Pune, Jaipur and Ghaziabad shall be established before December 31, 2013.
  - c. The ISCs at Lucknow, Gurgaon, Patna and Vadodara shall be made functional by June 30, 2014.
  - d. Accordingly, all Stock Exchanges with nation-wide terminals would have to set up these facilities at all 16 places mentioned above by June 30, 2014.
- iii) With a view to streamline and make more effective the investor grievance redressal mechanism at Stock Exchanges, and consequent to discussions with Stock Exchanges and Depositories, it has been decided to shorten the time taken for the proceedings as well as to give monetary relief to the investors, during the course of pendency of proceedings. In this regard, Stock Exchanges are advised as under:
- a) Stock Exchanges shall ensure that all complaints are resolved at their end within 15 days as mentioned in the circular no. CIR/MRD/ICC/16/2012 dated June 15, 2012. The correspondence with the Member & investor (who is client of a Member) may be done on email if the email id of the investor is available in the UCC database. The Member (Stock Broker, Trading Member and Clearing Member) shall provide a dedicated email id to the stock exchange for this purpose.
  - b) In case the matter does not get resolved, conciliation process of the exchange would start immediately after the time lines stated in sub-para (a) above.



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- c) Investor Grievance Redressal Committee (IGRC) shall be allowed a time of 15 days to amicably resolve the investor complaint.
- d) IGRC shall adopt a two-fold approach i.e. for proceedings leading to direction to the Member to render required service in case of service related complaints and proceedings leading to an order concluding admissibility of the complaint or otherwise in case of trade related complaints.
- e) In case the matter is not resolved through the conciliation process, IGRC would ascertain the claim value admissible to the investor.
- f) Upon conclusion of the proceedings of IGRC, i.e. in case claim is admissible to the investor, Stock Exchanges shall block the admissible claim value from the deposit of the Member.
- g) The Stock Exchange shall give a time of 7 days to the Member from the date of signing of IGRC directions as mentioned under sub-para (d) above to inform the Stock Exchange whether the Member intends to pursue the next level of resolution i.e. Arbitration.
- h) In case, the Member does not opt for arbitration, the Stock Exchange shall, release the blocked amount to the investor after the aforementioned 7 days.
- i) In case, the Member opts for arbitration and the claim value admissible to the investor is not more than Rs. 10 lac, the following shall be undertaken by the Stock Exchange
  - a. 50% of the admissible claim value or Rs. 0.75 lac, whichever is less, shall be released to the investor from IPF of the Stock Exchange.
  - b. In case the arbitration award is in favour of the investor and the Member opts for appellate arbitration then a positive difference of, 50% of the amount mentioned in the arbitration award or Rs. 1.5 lac, whichever is less and the amount already released to the investor at clause (i) above, shall be released to the investor from IPF of the Stock Exchange.
  - c. In case the appellate arbitration award is in favour of the investor and the Member opts for making an application under section 34 of the Arbitration and Conciliation Act, 1996 to set aside the appellate arbitration award, then a positive difference of 75% of the amount determined in the appellate arbitration award or Rs. 2 lac, whichever is less and the amount already released to the





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investor at clause (i) and (ii) above, shall be released to the investor from IPF of the Stock Exchange.

- d. Before release of the said amounts from the IPF to the investor, the Stock Exchange shall obtain appropriate undertaking/ indemnity from the investor against the release of the amount from IPF, to ensure return of the amount so released to the investor, in case the proceedings are decided against the investor.
- e. If it is observed that there is an attempt by investor/client either individually or through collusion with Member(s) or with any other stakeholders, to misuse the provision of this Circular, then without prejudice to the powers of the Board to take action, appropriate action in this regard shall be taken against any such person, by the Stock Exchange, including disqualification of the person so involved from henceforth accessing the benefits of this Circular.
- f. In case the complaint is decided in favour of the investor after conclusion of the proceedings, then amount released to the investor shall be returned to IPF from the blocked amount of the Member by the Stock Exchange and the rest shall be paid to the investor.
- g. Total amount released to the investor through the facility of monetary relief from IPF in terms of this Circular shall not exceed Rs. 5 lac in one financial year.
- h. Stock Exchanges may devise a detailed procedure with regard to release of funds from IPF and recovery thereof and necessary formats of documentation.
- i. In case the investor loses at any stage of the proceedings and decides not to pursue further, then the investor shall refund the amount released from IPF, back to the IPF. In case the investor fails to make good the amount released out of IPF then investor (based on PAN of the investor) shall not be allowed to trade on any of the Stock Exchanges till such time the investor refunds the amount to IPF. Further, the securities lying in the demat account(s) of the investor shall be frozen till such time as the investor refunds the amount to the IPF.
- j. The Stock Exchanges may also resort to displaying the names of such investors on their websites if considered necessary.



- iv) With a view to rationalise the timelines involved in the arbitration mechanism, Stock Exchanges are advised as under:
- a) As per clause 6.2 of circular no. CIR/MRD/DSA/24/2010 dated August 11, 2010 the Members are required to file application for appellate arbitration within one month of the date of receipt of arbitral award. Further as per section 34 (3) of the Arbitration and Conciliation Act, 1996 the Members have three months to make an application to set aside an arbitral award. In this regard, the Members shall convey their intention to Stock Exchanges within 7 days of receipt of the award, as regards whether such Members desire to challenge the arbitration award/appellate arbitration award in Court or not.
  - b) If the Members do not express their intent to challenge the arbitration award/appellate arbitration award then it would be presumed that Members does not intend to challenge the award and the Stock Exchange shall take further steps accordingly.

In addition to the above, the stock exchanges shall also take the below mentioned steps:

- v) With a view to address complaints regarding 'unauthorised trades' Stock Exchanges are advised to direct the Members to put in place the following:
- a) In case the Member has made margin calls to the client and the client has failed to comply with these margin calls, then the contract note issued by Member for transactions owing to non-compliance of such margin calls would bear a remark specifying the same.
  - b) The Member shall maintain a verifiable record of having made such margin calls and that clients have not complied with the same.
  - c) With a view to assist investors engaged in dispute resolution process, Stock Exchanges shall set up facilitation desks at all investor services centres as specified by SEBI from time to time. These facilitation desks would *inter alia* also assist investors in obtaining documents/details from Stock Exchanges wherever so required for making application to IGRC and filing arbitration.

## **2. Arbitration Mechanism at Stock Exchanges**

### **2.1 Conformity of the Exchange Bye-Laws with the Arbitration and Conciliation Act, 1996 <sup>8</sup>**

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<sup>8</sup> SMD/POLICY/CIRCULAR/3-97 dated March 31, 1997  
Master circular no. CIR/MRD/DSA/SE/43/2010 dated December 31, 2010



- The Bye-laws of the stock exchanges relating to arbitration proceedings shall be in accordance with the Arbitration and Conciliation Act, 1996.

## 2.2 Arbitration Mechanism in Stock Exchanges<sup>9</sup>

- i) In consultation with the stock exchanges, it has been decided to streamline the arbitration mechanism available at stock exchanges for arbitration of disputes (claims, complaints, differences, etc.) arising between a client and a member (Stock Broker, Trading Member and Clearing Member) across various market segments.
- ii) A stock exchange shall provide an arbitration mechanism for settlement of disputes between a client and a member through arbitration proceedings in accordance with the provisions of this Circular read with Section 2(4) of the Arbitration and Conciliation, Act, 1996.

### 2.2.1 Maintenance of a Panel of Arbitrators<sup>9</sup>

- i) A stock exchange shall maintain a panel of arbitrators. The number of arbitrators in the panel shall be commensurate to the number of disputes so that an arbitrator handles a reasonable number of references simultaneously and all arbitration references are disposed of within the prescribed time.
- ii) The stock exchange shall have a set of fair and transparent criteria for inclusion of names in the panel of arbitrators.
- iii) While deciding to include a particular person in the panel of arbitrators, the stock exchange shall take into account the following factors:
  - a) age,
  - b) qualification in the area of law, finance, accounts, economics, management, or administration, and
  - c) experience in financial services, including securities market.
- iv) The name of a person shall be included in the panel after obtaining:
  - a) a declaration that he has not been involved in any act of fraud, dishonesty or moral turpitude, or found guilty of any economic offence,
  - b) disclosure of the nature of his association with securities market,
  - c) disclosure of the names of his dependents associated with the securities market as member, sub-broker or authorized person, and
  - d) an undertaking that he shall abide by the code of conduct prescribed in this circular.
- v) The stock exchange shall provide at least seven days of continuing education to every arbitrator each year.

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<sup>9</sup> CIR/MRD/DSA/24/2010 dated August 11, 2010



- vi) The stock exchange shall have a mechanism to appraise the performance of arbitrators and reconstitute the panel based on such appraisal atleast once a year.

#### 2.2.2 **Code of Conduct for Arbitrators<sup>9</sup>**

An arbitrator shall -

- i) act in a fair, unbiased, independent and objective manner;
- ii) maintain the highest standards of personal integrity, truthfulness, honesty and fortitude in discharge of his duties;
- iii) disclose his interest or conflict in a particular case, i.e., whether any party to the proceeding had any dealings with or is related to the arbitrator;
- iv) not engage in acts discreditable to his responsibilities;
- v) avoid any interest or activity which is in conflict with the conduct of his duties as an arbitrator;
- vi) avoid any activity that may impair, or may appear to impair, his independence or objectivity;
- vii) conduct arbitration proceedings in compliance with the principles of natural justice and the relevant provisions of the Arbitration and Conciliation Act, 1996, the SEBI Act, 1992, the Securities Contracts (Regulation) Act, 1956 and the Rules, Regulations and Bye-laws framed there under and the circulars, directions issued by the Government / SEBI;
- viii) endeavor to pass arbitral award expeditiously and in any case not later than the time prescribed in this circular; and
- ix) pass reasoned and speaking arbitral awards.

#### 2.2.3 **Arbitration<sup>3</sup>**

- i) The limitation period for filing an arbitration reference shall be governed by the law of limitation, i.e., The Limitation Act, 1963.
- ii) An arbitration reference for a claim / counter claim up to Rs.25 lakh shall be dealt with by a sole arbitrator while that above Rs.25 lakh shall be dealt with by a panel of three arbitrators.
- iii) The stock exchange shall ensure that the process of appointment of arbitrator(s) is completed within 30 days from the date of receipt of application from the applicant.
- iv) The arbitration reference shall be concluded by way of issue of an arbitral award within four months from the date of appointment of arbitrator(s).



- v) The Managing Director/ Executive Director of the stock exchange may for sufficient cause extend the time for issue of arbitral award by not more than two months on a case to case basis after recording the reasons for the same.

#### 2.2.4 **Appellate Arbitration<sup>3</sup>**

- i) A party aggrieved by an arbitral award may appeal to the appellate panel of arbitrators of the stock exchange against such award.
- ii) An appeal before the appellate panel of arbitrators may be filed within one month from the date of receipt of arbitral award.
- iii) The appellate panel shall consist of three arbitrators who shall be different from the ones who passed the arbitral award appealed against.
- iv) The stock exchange shall ensure that the process of appointment of appellate panel of arbitrators is completed within 30 days from the date of receipt of application for appellate arbitration.
- v) The appeal shall be disposed of within three months from the date of appointment of appellate panel of such appeal by way of issue of an appellate arbitral award.
- vi) The Managing Director/ Executive Director of the stock exchange may for sufficient cause extend the time for issue of appellate arbitral award by not more than two months on a case to case basis after recording the reasons for the same.
- vii) A party aggrieved by the appellate arbitral award may file an application to the Court of competent jurisdiction in accordance with Section 34 of the Arbitration and Conciliation Act, 1996.

#### 2.2.5 **Arbitration Fees<sup>10</sup>**

- i) Each of the parties to arbitration (other than a client with a claim / counter claim upto Rs. 10 lakh and filing the arbitration reference for the same) shall deposit an amount, as may be prescribed by the stock exchange, at the time of making arbitration reference. The deposits (exclusive of statutory dues - stamp duty, service tax, etc.) shall not exceed the amount as indicated under:

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<sup>10</sup> CIR/MRD/DSA/29/2010 dated August 31, 2010



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Amount of Claim / Counter Claim, whichever is higher (Rs.)	If claim is filed within six months	If claim is filed after six months
≤ 10,00,000	1.3% subject to a minimum of Rs.10,000	3.9% subject to a minimum of Rs.30,000
> 10,00,000 - ≤ 25,00,000	Rs. 13,000 plus 0.3% amount above Rs. 10 lakh	Rs. 39,000 plus 0.9% amount above Rs. 10 lakh
> 25,00,000	Rs. 17,500 plus 0.2 % amount above Rs. 25 lakh subject to maximum of Rs. 30,000	Rs. 52,500 plus 0.6 % amount above Rs. 25 lakh subject to maximum of Rs. 90,000

ii) A client, who has a claim / counter claim upto Rs. 10 lakh and files arbitration reference, shall be exempt from the deposit. Expenses thus arising with regard to such applications shall be borne by the Stock Exchanges.<sup>11</sup>

iii) In all cases, on issue of the arbitral award the stock exchange shall refund the deposit to the party in whose favour the award has been passed. In cases where claim was filed within six months period, the full deposit made by the party against whom the award has been passed, shall be appropriated towards arbitration fees. In cases where claim was filed after six months, one third of the deposit collected from the party against whom the award has been passed, shall be appropriated towards arbitration fees and balance two third amount shall be credited to the Investor Protection Fund of the respective stock exchange.

Note: Six months (as referred to in paras i, ii and iii above) shall be computed from the end of the quarter during which the disputed transaction(s) were executed/ settled, whichever is relevant for the dispute, and after excluding:-

a) the time taken by the Investors Grievances Redressal Committee of the Stock Exchange (the time taken from the date of receipt of dispute till

<sup>11</sup> CIR/MRD/ICC/29/2012 dated November 7, 2012



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the decision by the committee) to resolve the dispute under its Rules, Byelaws & Regulations, and

- b) the time taken by the member to attempt the resolution of the dispute (the time from the date of receipt of dispute by the member to the date of receipt of the member's last communication by the client) or one month from the date of receipt of the dispute by the member, whichever is earlier.
- iv) A party filing an appeal before the appellate panel [as mentioned under Para 2.2.4 above] shall pay a fee not exceeding Rs. 30,000, as may be prescribed by the stock exchange, in addition to statutory dues (stamp duty, service tax, etc) along with the appeal. In case the party filing the appeal is a client having claim/counterclaim of upto Rs. 10 lakh, then the party shall pay a fee not exceeding Rs. 10,000/- . Further expenses thus arising shall be borne by the Stock Exchanges and the Investor Protection Fund of Stock Exchanges equally.<sup>12</sup>

### 2.2.6 Place of Arbitration<sup>13</sup>

- i) The Stock Exchanges (SEs) having nationwide terminals, shall provide arbitration facility (i.e. arbitration as well as appellate arbitration) atleast at all centres specified by SEBI from time to time. However, the SEs having nationwide terminals may provide arbitration facility at additional centres, if SEs so desire. The arbitration and appellate arbitration shall be conducted at the centre nearest to the address provided by Client in the KYC form.
- ii) Other stock exchanges shall provide the arbitration facility, including appellate arbitration, at the place where it is located.
- iii) The application under section 34 of the Arbitration and Conciliation Act, 1996, if any, against the decision of the appellate panel shall be filed in the competent Court nearest to the address provided by Client in the KYC form.

### 2.2.7 Implementation of Arbitral Award in favour of Clients<sup>9</sup>

- i) In case the arbitral / appellate arbitral award is in favour of the client, the stock exchange shall, on receipt of the same, debit the amount of the award from the security deposit or any other monies of the member (against whom an award has been passed) and keep it in a separate escrow account.

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<sup>12</sup> CIR/MRD/ICC/29/2013 dated September 26, 2013

<sup>13</sup> CIR/MRD/ICC/21/2013 dated July 05, 2013



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- ii) The stock exchange shall implement the arbitral award, by making payment to the client, along with interest earned on the amount that has been set aside, as soon as the time for preferring an appeal before the appellate panel of arbitrators has expired and no appeal has been preferred.
- iii) The stock exchange shall implement the appellate arbitral award, by making payment to the client, along with interest earned on the amount that has been set aside, as soon as
  - a. the time for making an application to a Court to set aside such appellate arbitral award under Section 34 of the Arbitration and Conciliation Act, 1996 has expired, and no application has been made, or
  - b. when an application to a Court to set aside such appellate arbitral award under Section 34 of the Arbitration and Conciliation Act, 1996, having been made, it has been refused by such Court, or
  - c. an application to a Court to set aside such appellate arbitral award under Section 34 of the Arbitration and Conciliation Act, 1996, having been made, but where no stay has been granted by such Court within a period of three months from the date on which the party making that application had received the appellate arbitral award.

### 2.2.8 Record and Disclosures<sup>9</sup>

- i) The stock exchange shall preserve the following documents related to arbitration:
  - a) the arbitral and appellate arbitral award with acknowledgements, confirming receipt of award by the disputing parties, permanently;
  - b) other records pertaining to arbitration for five years from the date of arbitral award, appellate arbitral award or Order of the Court, as the case may be; and
  - c) register of destruction of records relating to (ii) above, permanently.
- ii) The stock exchange shall disclose on its website, details of disposal of arbitration proceedings as per format A\* and details of arbitrator-wise disposal of arbitration proceedings as per format B\*. *\*(specified in circular no. CIR/MRD/DSA/24/2010 dated August 11, 2010).*
- iii) The stock exchange shall continue to disclose on their website the arbitration awards (issued since April 1, 2007), as advised vide circular dated April 01, 2010, in format C.





**2.2.9 Applicability of the provisions of the Limitation Act, 1963<sup>14</sup>**

- i) This is in continuation of circular ref. No. CIR/MRD/DSA/24/2010 dated August 11, 2010, which *inter alia* prescribed that the limitation period for filing an arbitration reference shall be governed by the provisions of the Limitation Act, 1963. In this regard upon consideration of various representations received by SEBI and pursuant to the discussions held with the representatives of stock exchanges, it has been decided that the limitation period, as modified to three years in terms of Limitation Act, 1963, shall be applicable to cover *inter alia* the following cases:-
  - a) where three years have not yet elapsed and the parties have not filed for arbitration with the stock exchange, or
  - b) where the arbitration application was filed but was rejected solely on the ground of delay in filing within the earlier limitation period of six months; and three years have not yet elapsed;
- ii) The cost for arbitration in such cases would be as under:-
  - a) Cases which were not filed earlier will be subject to the fee amount in terms of SEBI circulars dated August 11, 2010 and August 31, 2010.
  - b) For cases filed earlier and rejected on the ground of bar of limitation as per the earlier limitation period of six months, the amount of fee already paid would be deducted from the amount computed in terms of SEBI circulars dated August 11, 2010 and August 31, 2010. The balance shall be borne by the parties to the arbitration in the manner specified vide SEBI circulars dated August 11, 2010 and August 31, 2010.
- iii) Stock exchanges are advised to widely publicise (including in media) the provisions of this circular. In addition to the above, stock exchanges are also directed to inform those applicants who are eligible to file for arbitration in terms of sub-para (ii) of first para of this circular.

**2.2.10 Composition of arbitration committee<sup>15</sup>**

- i) SEBI, vide its various communications has mandated all stock exchanges that not be more than twenty percent of the members of the arbitration committee shall be trading members.
- ii) It has now been decided to do away with the representation of trading members on arbitration committee/panel of all stock exchanges. It is,

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<sup>14</sup> CIR/MRD/DSA/2/2011 dated February 09, 2011  
R/MRD/ICC/21/2013 dated July 05, 2013  
, 2012



henceforth, stipulated that the arbitration committee/panel shall not comprise of any trading members.

**2.2.11 Introduction of Automatic Process and Common Pool of arbitrators.<sup>16</sup>**

SEBI has received inputs from investors regarding functioning of the arbitration mechanism at the Stock Exchanges. In light of which, you are advised to carry out the following changes in the arbitration mechanism.

- i) List of Arbitrators on the panel of all stock exchanges having nation-wide trading terminals shall be pooled and will be called a 'Common Pool'. This list shall be made publicly available including by way of display on websites of the stock exchanges.
- ii) 'Common pool' of Arbitrators will consist of Arbitrators listed on the panels of all stock exchanges having nation-wide trading terminals. The pooling of arbitrators will be done centre-wise. To illustrate, the list of arbitrators on the panel of all stock exchanges for the region covered by the Delhi centre will be pooled. This would enable an applicant from the region to choose any arbitrator from the 'Common Pool' for Delhi.
- iii) If the client and member (stock broker, trading member or clearing member) fail to choose the Arbitrator(s) from the Common Pool, the Arbitrator(s) will be chosen by an 'Automatic Process' wherein neither the parties to arbitration (i.e. client or member) nor the concerned Stock Exchanges will be directly involved.
- iv) The 'Automatic Process' will entail a randomized, computer generated selection of Arbitrator, from the list of Arbitrators in the 'Common Pool'. The selection process shall be in chronological order of the receipt of arbitration reference i.e. only after selecting an arbitrator for the former arbitration reference received, selection for the latter shall be taken up.
- v) The 'Automatic Process' will send a system generated, real time alert (sms, email etc.) to all entities involved in the particular case. Further, the communication for the appointment of the Arbitrator will be sent immediately and in any case not later than the next working day from the day of picking of the Arbitrator. This communication will be sent by the stock exchange on which the dispute had taken place, to all concerned entities including clients, arbitrators, members, stock exchanges etc.

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<sup>16</sup> CIR/MRD/ICC/8/2013 dated March 18, 2013



- vi) The selection of Arbitrators by Stock Exchanges as done currently, shall henceforth be replaced by the 'Automatic Process'. In case of any probable conflict of interest in an arbitration reference being assigned to any Arbitrator the Arbitrator will have to upfront decline the arbitration reference. After the said arbitrator declines, the 'automatic process' will pick the name of another Arbitrator. This will continue till the time there is no conflict of interest, by the selected arbitrator. In this regard, the timelines mentioned at clause 5.3 in CIR/MRD/DSA/24/2010 dated August 11, 2010 of 30 days might get extended. However, SEs shall put on record the reasons of such extension.
- vii) In case of conflict of interest by the arbitrator, the information for the same may reach the stock exchange on which the dispute has taken place within 15 days of receipt of communication from the SE above. The said information may be sent by any method which ensures proof of delivery.

## **V. SMALL AND MEDIUM ENTERPRISES (SME)**

### **5.1 Setting up of stock exchange / a trading platform by a recognized stock exchange having nationwide trading terminals for SME<sup>17</sup>**

5.1.1 SEBI had laid down the framework (on November 05, 2008) for recognition and supervision of stock exchanges/platforms of stock exchanges for small and medium enterprises (SMEs).

5.1.2 In order to lay down the policy for issue, listing and trading of the securities issued by the SMEs, necessary amendments have been made in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, SEBI (Merchant Bankers) Regulations, 1992, SEBI (Foreign Institutional Investors) Regulations, 1995, SEBI (Venture Capital Funds) Regulations, 1996, SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and SEBI (Stock Brokers and Sub-brokers) Regulations, 1992. Complete text of the said amendments is available on the SEBI website, [www.sebi.gov.in](http://www.sebi.gov.in). Salient features of those amendments are as under:

- (a) An issuer whose post -issue face value capital does not exceed ten crore rupees shall make Initial Public Offer of specified securities in terms of Chapter XA of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations).

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<sup>17</sup> Circular No.MRD/DSA/17/2010 dated May 18, 2010



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- (b) An issuer listed on a SME exchange and whose post- issue face value capital pursuant to further issue of capital does not exceed ten crore rupees shall make further issue of specified securities in terms of Chapter XA of the ICDR Regulations.
- (c) An issuer having post -issue face value capital between ten crore rupees and twenty five crore rupees may make Initial Public Offer and further issue of specified securities in terms of Chapter XA of the ICDR Regulations.
- (d) An issuer making issue of specified securities in terms of Chapter XA of the ICDR Regulations shall be required to list its entire specified securities on the SME exchange.
- (e) An issuer making issue of specified securities in terms of Chapter XA of the ICDR Regulations shall be exempted from the eligibility requirements as laid down under regulations 25, 26 and 27 of the ICDR Regulations.
- (f) An issuer with post issue face value capital between Rs 10 crore and Rs 25 crore listed on SME exchange can migrate to Main Board, as specified in the ICDR Regulations and vice-versa, provided they meet the listing requirements of the stock exchange where they propose to list the specified securities and have obtained the shareholders approval in the manner specified in the ICDR Regulations.
- (g) An issuer listed on SME exchange proposing to issue further capital pursuant to which their post -issue face value capital may increase beyond Rs. 25 crore shall migrate to the main board, subject to obtaining in-principle approval of the main board before issue of such securities.
- (h) An issuer making issue of specified securities in terms of Chapter XA of the ICDR Regulations shall file the offer document with SEBI and SME exchange, in respect of proposed issue, through the merchant banker. No observations would be issued by SEBI on the offer documents filed by the Merchant Banker/s. The offer document shall be made available on the websites of SEBI, the issuer, the merchant banker/s and the SME exchange.
- (i) The issue made in terms of Chapter XA of the ICDR Regulations shall be 100% underwritten and the merchant banker/s shall underwrite 15% in their own account. Merchant Banker/s can also enter into agreement with nominated investors to subscribe to the unsubscribed portion of the issue. Such arrangements shall be disclosed in the offer document.



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- (j) The merchant banker to the issue will undertake market making through a stock broker who is registered as market maker with the SME exchange. The merchant banker shall be responsible for market making for a minimum period of three years from the date of listing of the specified securities. Further, the merchant bankers can also enter into agreement with nominated investors, as defined under ICDR Regulations, to whom the shares bought or sold during the market making process can be transferred. Such arrangements shall be with the prior approval of the SME exchange and disclosed in the offer document.
- (k) During the compulsory market making period, the promoters holding shall not be eligible for offering to market makers. However, the promoters holding which are not locked-in in terms of the ICDR can be traded on the SME exchange with the prior approval of the SME exchange, in the manner specified by the SEBI. During the compulsory market making period the buyer of shares from the promoters or persons belonging to promoter group of the issuer shall not be eligible to offer such shares to market makers.
- (l) Merchant Banker/s who have the responsibility of market making may, at their option, be represented on the board of the issuer subject to agreement with the issuer in this regard.
- (m) The issuer shall stipulate in the offer document, the minimum application size in terms of number of specified securities which shall not be less than one lakh rupees per application.
- (n) A minimum number of 50 (fifty) investors is required at the IPO stage only. There shall be no continuous requirement of minimum number of shareholders.
- (o) A stock broker of the Main Board need not obtain fresh registration for trading on SME platform of such Main Board. Further, no fresh registration needs to be obtained by a sub-broker, where such registered sub-broker is affiliated to stock broker who is eligible to trade on SME platform.

5.1.3 It is hereby further clarified that –

- (a) an issuer listed on a recognized stock exchange other than a SME exchange and whose post -issue face value capital pursuant to further issue of securities of the same class does not exceed ten crore rupees will have option to make further issue of specified securities of same class in



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accordance with Chapter XA of the ICDR Regulations provided that its entire specified securities of the same class shall be listed on the SME exchange.

- (b) In case of migration from SME exchange to main board or vice-versa, in terms of the ICDR Regulations the issuer shall submit an information memorandum to the Stock Exchange where it is migrating to in the format specified by the SME exchange or the Main Board, as the case may be.

However, if migration is on account of further issue of capital through an offer document or placement document in terms of ICDR Regulations the issuer shall not file the information memorandum.

5.1.4 Further, the Guidelines for market making for the specified securities listed on the SME exchange have also been issued separately through circular no. CIR/MRD/DP/ 14 /2010 dated April 26, 2010. Complete text of the guidelines is available on the SEBI website, [www.sebi.gov.in](http://www.sebi.gov.in).

5.1.5 The model listing agreement for listing of specified securities issued or migrated on SME exchange, in terms of Chapter XA of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 have also been issued through separate circular no. CIR/CFD/DIL/6/2010 dated May 17, 2010. Complete text of the model listing agreement is available on the SEBI website, [www.sebi.gov.in](http://www.sebi.gov.in).

5.1.6 In view of the above policy decisions, it has been decided to make certain changes in the framework for recognition and supervision of SME exchanges/platforms prescribed on November 05, 2008. Accordingly, in supersession to earlier framework of November 05, 2008, the following framework is hereby specified.

A. A company desirous of being recognized as a SME exchange may apply to Market Regulation Department, SEBI, in accordance with the provisions of the Securities Contracts (Regulation) Act, 1956 ( SCRA) read with the provisions of the Securities Contracts (Regulation) Rules, 1957 (the SCRR), subject to the applicant fulfilling the following conditions:

- (i) It is a corporatised and demutualised entity and is compliant with requirements of maintaining public shareholding and shareholding restrictions in accordance with Chapters II and III of the Securities Contracts (Regulation) (Manner of Increasing



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and Maintaining Public Shareholding in Recognised Stock Exchanges) Regulations, 2006;

- (ii) It has a balance sheet networth of atleast Rs. 100 crores;
  - (iii) It shall have nation wide trading terminals and an online screen-based trading system, a suitable Business Continuity Plan including a disaster recovery site;
  - (iv) It shall have an online surveillance capability which monitors positions, prices and volumes in real time so as to check market manipulation;
  - (v) It shall have adequate arbitration and investor grievances redressal mechanism operative from all the four regions of the country.
  - (vi) It shall have adequate inspection capability;
  - (vii) It shall have the same risk management system and surveillance system as are required for cash market segment of a recognised stock exchange;
  - (viii) Information about trades, quantities, and quotes shall be disseminated by the recognized stock exchange in real time to at least two information vending networks which are accessible to investors in the country;
  - (ix) The trading system of the stock exchange may be quote driven or a hybrid of quote driven and order driven. The settlement system in the stock exchange shall be the same as that of the cash market of a recognised stock exchange;
  - (x) The clearing function of the stock exchange shall be performed by a clearing corporation/ clearing house;
  - (xi) The minimum lot size for trading on the stock exchange shall be one lakh rupees.
- B. The above eligibility criteria shall *mutatis mutandis* apply to recognised stock exchanges having nationwide trading terminals and which desires to set up a trading platform for listing of the specified securities issued in terms of Chapter XA of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009. Such recognised stock exchange shall file an application demonstrating its compliance with the conditions mentioned in sub-para (i) to (xi) of para



6 above alongwith the proposed Rules, Regulations and Byelaws for the SME platform. Such a platform can be operationalised by the recognised stock exchange only after obtaining prior approval of SEBI.

## 5.2 Standardized lot size for SME Exchange / Platform<sup>18</sup>

5.2.1 It has been decided to standardize the lot size for Initial Public Offer proposing to list on SME exchange/platform and for the secondary market trading on such exchange/platform, as given under:

Price Band (in Rs)	Lot Size (No of shares)
Upto 14	10000
more than 14 upto 18	8000
more than 18 upto 25	6000
more than 25 upto 35	4000
more than 35 upto 50	3000
more than 50 upto 70	2000
more than 70 upto 90	1600
more than 90 upto 120	1200
more than 120 upto 150	1000
more than 150 upto 180	800
more than 180 upto 250	600
more than 250 upto 350	400
more than 350 upto 500	300
more than 500 upto 600	240
more than 600 upto 750	200
More than 750 upto 1000	160

<sup>18</sup> Circular No.MRD/DSA/06/2012 dated February 21, 2012





above 1000	100
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- 5.2.2 At the Initial Public Offer stage the Registrar to Issue in consultation with Merchant Banker/s, Issuer and the Stock Exchange shall ensure to finalize the basis of allotment in minimum lots and in multiples of minimum lot size, as per the above given table. The secondary market trading lot size shall be the same, as shall be the IPO Lot Size at the application/allotment stage, facilitating secondary market trading.
- 5.2.3 At the Initial Public Offering stage if the price band decided, falls within two different price bands than the minimum application lot size shall be decided based on the price band in which the higher price falls into. For example: if the proposed price band is at 24-28 than the Lot size shall be 4000 shares.
- 5.2.4 The lot size shall not be reduced by the exchange to below the initial lot size if the trading price is below the IPO issue price.
- 5.2.5 The Stock Exchanges can review the lot size once in every 6 months / wherever warranted, by giving an advance notice of at least one month to the market. However, as far as possible the stock exchange shall ensure that odd lots are not created.
- 5.2.6 Further, the stock exchanges shall ensure that the lot size shall be the same for a securities traded across the Exchanges.
- 5.2.7 In case of oversubscription, if the option to retain ten percent of the net offer to public for the purpose of making allotment in minimum lots is exercised, then it shall be ensured by the Issuer/Stock Exchanges/ Merchant Bankers that the post issue paid up capital of the issuer does not go beyond Rs.25 crore.

**5.3 Listing of specified securities of small and medium enterprises on the Institutional Trading Platform in a SME Exchange without making an initial public offer.<sup>19</sup>**

- 5.3.1 In order to facilitate capital raising by small and medium enterprises including startup companies which are in their early stages of growth and to provide for easier exit options for informed investors like angel investors, VCFs and PEs etc., from such companies, it has been decided to permit listing without an Initial Public Offer and trading of specified

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<sup>19</sup> Circular No.MRD/DSA/33/2013 dated October 24, 2013



securities of small and medium enterprises(SMEs) including start-up companies on Institutional Trading Platform (ITP) in SME Exchanges.

5.3.2 The legal framework for such listing and trading of the specified securities on the ITP was laid down vide SEBI (Listing of Specified Securities on Institutional Trading Platform) Regulations, 2013(ITP Regulations) vide Gazette notification No. LAD-NRO/GN/2013-14/27/6720 dated October 08, 2013. In this regard, through said ITP Regulations, necessary amendments have been made in the SEBI (Issue of Capital and Disclosure Requirements) Regulations 2009 (ICDR Regulations) by inserting a "Chapter XC" on "Listing and Issue of Capital by Small and Medium Enterprises on Institutional Trading Platform without initial public offering". Further, vide said ITP Regulations, consequential amendments have also been made to SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and SEBI (Delisting of Equity Shares) Regulations, 2009. The full text of the Regulations is available at [www.sebi.gov.in](http://www.sebi.gov.in).

5.3.3 Salient features of those amendments are as under:

**i. The Institutional Trading Platform (ITP).**

- (a) The ITP shall be a platform for listing and trading of specified securities of small and medium enterprises including start-up companies in a 'SME Exchange' as defined under regulation 106N(1)(c) of ICDR Regulations;
- (b) The ITP shall be accessible only to informed investors who are either individuals or institutions and the minimum trading lot shall be ten lakh rupees on this platform;
- (c) Companies listed on ITP shall not make a public issue of its securities.

**ii. Eligibility for listing.**



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A public company seeking listing on ITP should comply with the following requirements:

- (a) the company, its promoter, group company or director does not appear in the willful defaulters list of Reserve Bank of India as maintained by Credit Information Bureau (India) Limited;
- (b) there is no winding up petition against the company that has been admitted by a competent court;
- (c) the company, group companies or subsidiaries have not been referred to the Board for Industrial and Financial Reconstruction within a period of five years prior to the date of application for listing;
- (d) no regulatory action has been taken against the company, its promoter or director by SEBI, Reserve Bank of India, Insurance Regulatory and Development Authority or Ministry of Corporate Affairs within a period of five years prior to the date of application for listing;
- (e) the company has atleast one full year's audited financial statements, for the immediately preceding financial year at the time of making listing application;
- (f) the company has not completed a period of more than 10 years after incorporation and its revenues have not exceeded one hundred crore rupees in any of the previous financial years;
- (g) the paid up capital of the company has not exceeded twenty five crore rupees.
- (h) In addition to the above requirements, the company should have received certain minimum investment from atleast any one of the following categories of investors as specified below in order to qualify for listing on ITP:



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- (i) At least one alternative investment fund, venture capital fund or other category of investors/lenders approved by SEBI, has invested a minimum amount of fifty lakh rupees in the equity shares of the company.
- (ii) One or more angel investor who is a member of an association / group of angel investors which fulfils the criteria laid down by the recognised stock exchange, has invested a minimum amount of fifty lakh rupees in the equity shares of the company through the association/group.
- (iii) The company has received finance from a scheduled bank for its project financing or working capital requirements and a period of three years has elapsed from the date of such financing and the funds so received have been fully utilized.
- (iv) A registered merchant banker has exercised due diligence and has invested not less than fifty lakh rupees in equity shares of the company which shall be locked in for a period of three years from the date of listing.
- (v) A qualified institutional buyer has invested not less than fifty lakh rupees in the equity shares of the company which shall be locked in for a period of three years from the date of listing.
- (vi) A specialized international multilateral agency or domestic agency or a public financial institution under section 2(72) of the Companies Act, 2013 has invested in the equity capital of the company. For the purposes of sub-clause (ii) above, investments as facilitated through the angel association/group after due process followed by such association alone shall be eligible. Investments made by the angel investor on his own individual initiative shall not be eligible.



For the purposes of sub-clause (vi) above, domestic agency means a domestic developmental institution like Small Industries Development Bank of India (SIDBI) or National Bank for Agriculture or Rural Development (NABARD).

**iii. Process of listing.**

- (a) A company which meets the requirements of the Regulations may apply to the recognised stock exchange for listing along with the information document containing disclosures as specified under Schedule XIX A of ICDR Regulations. This Information document shall be made available to public through the website of the recognised stock exchange.
- (b) The concerned recognised stock exchange may issue an in-principle approval to companies eligible for listing on ITP.
- (c) A company which has received in-principle approval from a recognised stock exchange for listing of its specified securities on ITP shall be deemed to have been waived by SEBI from rule 19(2)(b) of Securities Contracts (Regulation) Rules, 1957 for the limited purpose of listing on ITP.
- (d) Such listing shall not be accompanied by any issue of securities or capital raising from public in any manner.

**iv. Capital raising.**

- (a) A company listed on ITP shall not make an initial public offer while being listed on the platform.
- (b) Such a company may raise capital through private placement or through a rights issue.
- (c) In case of a rights issue, there shall be no option for renunciation of rights and the company seeking to get listed on ITP shall agree to make necessary amendments to its articles of association to this effect.



- (d) Such companies raising funds through private placement shall be governed by the specific requirements in this regard such as, obtaining in-principle approval of the recognised stock exchange prior to allotment, obtaining shareholders approval under section 81(1A) of the Companies Act, 1956, completing allotment within two months of such approval, disclosures to be made in explanatory statement to the notice to shareholders and pricing norms as elaborated in Chapter XC of ICDR Regulations.
- (e) the company making a rights issue shall send a letter of offer to its shareholders through registered post or speed post or electronic mode and the same shall be made available on the website of the company and the recognised stock exchange.

**v. Minimum promoter shareholding and lock-in.**

Not less than twenty per cent. of the post listing capital of the company shall be held by the promoters at the time of listing and the same shall be locked-in for a period of three years from date of listing.

**vi. Exit from the platform.**

- (a) A company listed on ITP may exit the platform voluntarily after obtaining approval of its shareholders as below:
  - (i) its shareholders approve such exit by passing a special resolution through postal ballot where ninety per cent. of total votes and the majority of non-promoter votes have been cast in favor of such proposal;
  - (ii) it shall also obtain the SME Exchange's approval.
- (b) In the event of any of the following, the company would be required to exit the platform within 18 months from the occurrence of such event:
  - (i) the company has been listed on ITP for a period of 10 years;



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- (ii) the company has paid up capital of more than twenty five crore rupees;
- (iii) the company has revenue of more than three hundred crore rupees in the last audited financial statement;
- (iv) the company has market capitalization of more than five hundred crore rupees:

For the purposes of clause (iv) above, the market capitalization shall be calculated based on the average closing price of the shares for the previous three months.

- (c) A company listed on ITP shall be delisted and permanently removed from that under any of the following circumstances:
  - (i) failure to file periodic filings with the recognised stock exchange for more than one year;
  - (ii) failure to comply with corporate governance norm(s) for more than one year;
  - (iii) notwithstanding (i) and (ii) above, non-compliance of the condition of listing as may be specified by the recognised stock exchange.

**vii. Liabilities.**

- (a) The draft and final information memorandum shall be approved by the board of directors of the company and shall be signed by all directors, the Chief Executive Officer, i.e., the Managing Director or Manager within the meaning of the Companies Act, 1956 and the Chief Financial Officer, i.e., the whole-time finance director or any other person heading the finance function and discharging that function.
- (b) The signatories shall further certify that all disclosures made in the information document are true and correct.



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(c) In case of mis-statement in the information document or any omission therein, any person who has authorized the issue of information document shall be liable in accordance with the provisions of the SEBI Act, 1992 and regulations made there under.

5.3.4 A company seeking listing on ITP shall enter into an agreement with the recognized stock exchange. The Model listing agreement for the said purpose is given at Annexure A. Provisions regarding minimum public shareholding do not apply to companies listed on this platform since they are not allowed to make public issues while being listed on ITP and hence the same has been excluded from this listing agreement.





**REFERENCE – List of Circulars**

1. *Circular No. SMD-II/11615/92 dated November 20, 1992.*
2. *Circular No. SMD/SED/6919/93 dated April 20, 1993.*
3. *Circular No. Ref.SMD-I/22532 dated October 19, 1993.*
4. *Circular No. SMD-II(N)/24456/93 dated December 7, 1993*
5. *Circular No. SMD/536/95 dated March 28, 1995*
6. *Circular No. Ref. SMD-II/52 dated January 10, 1996*
7. *Letter No. SMD/RCG/3737/96 dated August 13, 1996.*
8. *Circular No. SMD/POLICY/IECG/5694/96 dated December 20, 1996.*
9. *Circular No. SMD/POLICY/IECG/2-97 dated February 25, 1997.*
10. *Circular No. SMD/POLICY/CIRCULAR/3-97, dated March 31, 1997*
11. *Circular No. SMD/POLICY/CIRCULAR-27/97 dated November 05, 1997.*
12. *Circular No. SMD/POLICY/CIRCULAR-09/98 dated February 24, 1998.*
13. *Circular No. SMDRP/Policy/Cir-33/98 dated November 12, 1998.*
14. *Circular No. SMD/POLICY/CIR (DBA-II)-37/98 dated December 04, 1998.*
15. *Circular No. SMDRP/Policy/Cir - 25 /99 dated August 12, 1999*
16. *Circular No. SMD-II/POLICY/CIR-37/99 dated November 26, 1999.*
17. *Circular No. SMD-I/POLICY/CIR-40/99 dated December 16, 1999.*
18. *Circular No. SMD-II/ALLSE/CIR-02/2000 dated January 10, 2000*
19. *Circular No. SMDRPD/Policy/Cir-8/2001dated February 07, 2001*
20. *Letter No.LKS/229/2001 dated May 18, 2001*
21. *Circular No. SMDRP/Policy/Cir-41/2001 dated August 09, 2001.*
22. *Circular No. SMD/POLICY/CIR-2/2002 dated January 10, 2002.*
23. *Letter dated September 02, 2002.*
24. *Circular No. SMD/POLICY/CIR-4/2003 dated February 11, 2003.*
25. *Circular No. SMD/Policy/Cir-8/2003 dated March 4, 2003*



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26. *Letter No. SMD/SEAD/9971/03 dated May 21, 2003.*
27. *Circular No. SEBI/SMD/SE/Cir- 19/2003/02/06 dated June 02, 2003*
28. *Circular No. SEBI/MRD/SE/15958/2003 dated August 22, 2003*
29. *Letter No. MRD/DSA/6899/2004 dated April 07, 2004*
30. *Circular No. MRD/POLICY/CIR-33/2004 dated September 30, 2004.*
31. *Circular No. MRD/DOP/SE/Cir-5/2005 dated February 9, 2005.*
32. *Letters dated August 31, 2005 / September 21, 2005.*
33. *Letter no. MRD/DSA/C&D/72675/06 dated July 27, 2006.*
34. *Circular No. MRD/DSA/SE/CIR- 28 /2008 dated October 17, 2008.*
35. *Letter dated November 6, 2008.*
36. *Letters dated February 20, 2009*
37. *Circular No. MRD/DoP/SE/Cir-10/2009 dated September 03, 2009*
38. *Circular No. MRD/DSA/SE/Cir-8/2010 dated April 1, 2010.*
39. *Circular No. SEBI/MRD/DSA-OIAE/Cir.09/2010 dated April 1, 2010*
40. *Circular No.MRD/DSA/17/2010 dated May 18, 2010*
41. *Circular No. SMD/MRD/DSA/24/2010 dated August 11, 2010*
42. *Circular No. CIR/MRD/DSA/29/2010 dated August 31, 2010*
43. *Master circular no. CIR/MRD/DSA/SE/43/2010 dated December 31, 2010*
44. *CIR/MRD/DSA/29/2010 dated August 31, 2010*
45. *CIR/MRD/DSA/2/2011 dated February 09, 2011*
46. *CIR/MRD/DSA/03/2012 dated January 20, 2012*
47. *CIR/MRD/DSA/04/2012 dated January 20, 2012*
48. *Circular No.MRD/DSA/06/2012 dated February 21, 2012*
49. *Circular No. MRD/DSA/14/2012 dated May 30, 2012*
50. *CIR/MRD/ICC/29/2012 date November7, 2012*
51. *Circular No.MRD/DSA/31/2012 dated November 27, 2012*



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52. *Circular No. CIR/MRD/DSA/33/2012 dated December 13, 2012*
53. *CIR/MRD/ICC/8/2013 dated March 18, 2013*
54. *CIR/MRD/ICC/20/2013 dated July 05, 2013*
55. *CIR/MRD/ICC/21/2013 dated July 05, 2013*
56. *CIR/MRD/ICC/29/2013 dated September 26, 2013*
57. *CIR/MRD/ICC/30/2013 dated September 26, 2013*
58. *Circular No. MRD/DSA/31/2013 dated September 30, 2013*
59. *Circular No. MRD/DSA/33/2013 dated October 24, 2013*
60. *Circular No. MRD/DSA/18/2014 dated May 22, 2014*
61. *Circular No. MRD/DSA/33/2014 dated December 09, 2014*