



MASTER CIRCULAR

CIR/MRD/DSA/SE/43/2010

December 31, 2010

The Managing Director/Executive Director,  
of all Stock Exchanges.

Dear Sir / Madam,

**Sub: Master Circular on Administration of Stock Exchanges, Arbitration in recognised Stock Exchanges and Stock Exchanges / trading platform for Small & Medium Enterprises including guidelines for Market Makers.**

1. The Securities and Exchange Board of India has, from time to time, issued various circulars/directions on the captioned subject. In order to enable the users to have an access to all the applicable circulars at one place, this Master Circular has been prepared.
2. This Master Circular consolidates the circulars/directions issued by SEBI in this regard up to December 31, 2010 as listed in the Schedule and shall come into force from the date of its issue.

Yours faithfully,

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**ALLOTMENT OF CODES TO STOCK EXCHANGES**

- 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.
- In this regard, the codes allotted to the recognised Stock Exchanges are as under –

<b>CODE</b>	<b>EXCHANGE NAME</b>
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	Magadh Stock Exchange Limited*
16	Jaipur Stock Exchange Limited
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



**Circulars : Allotment of Codes to Stock Exchanges**

The earlier circulars / directions issued by SEBI relating to allotment of codes to Stock Exchanges, which are compiled in this master circular, are as under -

1. Circular No. Ref.SMD-I/22532 dated October 19, 1993.
2. Circular No. SMD/POLICY/CIR (DBA-II)-37/98 dated December 04, 1998.
3. Circular No. MRD/DSA/SE/CIR- 28 /2008 dated October 17, 2008.
4. Circular No. MRD/DSA/SE/Cir-8/2010 dated April 1, 2010.



## II. **SUBSIDIARY MANAGEMENT BY STOCK EXCHANGE**

2.1 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.

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

- 2.2 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.

**Subsidiary Management**

- 2.3. 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 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

- b) 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

- c) 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.

### Responsibilities of Parent Exchange towards Subsidiary

- 2.4 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:
- i. Verification of compliance of margin payments and other risk management measures applicable to the subsidiary company as a trading member of another stock exchange.
  - ii. 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.
  - iii. 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.
  - iv. Handling of investor complaints of sub-brokers of the subsidiary company.
  - v. Submission of a half-yearly certificate on risk management system being followed by their subsidiary. This certificate should be furnished to 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.

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

- 2.5 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.

### **Circulars : Subsidiary Management by Stock Exchanges**

The earlier circulars / directions issued by SEBI relating to Subsidiary management by Stock Exchanges, which are compiled in this master circular, are as under:

1. Circular No. SMD-II/POLICY/CIR-37/99 dated November 26, 1999.
2. Circular No. SMD-I/POLICY/CIR-40/99 dated December 16, 1999.
3. Circular No. SMD-II/ALLSE/CIR-02/2000 dated January 10, 2000
4. Circular No. SMDRP/Policy/Cir-8/2001 dated February 07, 2001
5. Circular No. SMDRP/Policy/Cir-41/2001 dated August 09, 2001
6. Circular No. SMD/POLICY/CIR-4/2003 dated February 11, 2003.
7. Letter No. SMD/SEAD/9971/03 dated May 21, 2003.
8. Circular No. SEBI/SMD/SE/Cir-20/2003/02/06 dated June 02, 2003
9. Circular No. SEBI/MRD/SE/15958/2003 dated August 22, 2003
10. Letter No. MRD/DSA/6899/2004 dated April 07, 2004
11. Circular No. MRD/POLICY/CIR-33/2004 dated September 30, 2004.
12. Letter no. MRD/DSA/C&D/72675/06 dated July 27, 2006.

### III. GOVERNANCE OF RECOGNIZED STOCK EXCHANGES

#### **Composition of the Governing Board**

- 3.1 The composition of the Governing Board of all recognized stock exchanges shall be as under -
- a) Trading Member Directors shall constitute a maximum of one-fourth of the total strength of the Governing Board.
  - b) Public Interest Directors shall constitute one-fourth of the total strength of the Governing Board.
  - c) Shareholder Directors shall constitute the balance of the Governing Board.

#### **General Requirements**

- 3.2 The other incidental and consequential matters relating to governance of stock exchanges shall be as under -
- a) The Directors, except the Public Interest Directors and the Chief Executive such as CEO, ED, MD etc. shall be elected by the Shareholders.
  - b) No Director shall hold office for more than two consecutive terms.
  - c) 'Trading Member Directors' shall be elected from amongst the Trading Members of the concerned stock exchange.
  - d) 'Shareholder Directors' shall be elected from amongst the persons, who are not Trading Members or Associates of Trading Members.

'Associate' in relation to a Trading Member, individual, body corporate or firm, shall include a person:

- (i) who, directly or indirectly, by himself, or in combination with other persons, exercises control over the Trading Member, whether individual, body corporate or firm or holds substantial share of not less than 15% in the capital of such entities, or
- (ii) in respect of whom the Trading Member, individual or body corporate or firm, directly or indirectly, by itself or in combination with other persons, exercises control, or
- (iii) whose director or partner is also a director or partner of the Trading Member, body corporate or the firm, as the case may be.



The expression 'control' shall have the same meaning as defined under clause (c) of Regulation 2 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.

- e) 'Public Interest Directors' shall be selected by the Governing Board from amongst the persons in the SEBI constituted panel.
- f) A person shall not act as 'Public Interest Director' on more than one Stock Exchange simultaneously.
- g) The Chairman shall be elected by the Governing Board from amongst the non-executive non-trading member directors. If, for some reason, it is not possible for the Governing Board to elect the Chairman, the Governing Board may elect a Chairman for every meeting of the Board from amongst the non-executive non-trading member directors of the Governing Board.
- h) The manner of election, appointment, tenure, resignation, vacation, etc. of Directors (except the Chief Executive) shall be governed by the Companies Act, 1956 save as otherwise specifically provided under or in accordance with the Securities Contracts (Regulation) Act, 1956.
- i) The Chief Executive shall be an ex-officio Director on the Governing Board.
- j) No approval of SEBI shall be required for appointment of any Director, except for the Chief Executive.
- k) SEBI may nominate Directors on the Governing Board as and when deemed fit.

#### **Eligibility For Election of Trading Members on the Governing Board**

3.3 For the **Trading Members** to be elected to the Governing Board of a stock exchange, the following eligibility criteria shall be incorporated in the Rules of the Exchange –

a) In case of **INDIVIDUAL** trading members:

No trading member shall be eligible to be elected as member of the Governing Board if -

- i) he is not a citizen of India;
- ii) he has been a trading member for less than three years standing on the last day for submission of proposals by candidates for election.



- iii) he has at any time been declared a defaulter or failed to meet his liabilities in ordinary course or compounded with his creditors.
- b) In case of a **CORPORATE** trading member, one of its whole-time directors subject to the fulfillment of the following conditions in addition to the above mentioned conditions for individual trading members would be eligible to be elected as a trading member of the Governing Board:
  - i) In case the director resign/retires from the board of the company, or is removed from the board of the company and one post on the Governing Board falls vacant, the vacancy will be filled as per the Rules of the exchanges and corporate trading members will not have right to replace the trading member.
  - ii) In case of conversion of individual trading member/partnership firm into a corporate trading member, and the individual/partner(s) are whole time director(s) of the corporate then the previous experience of such trading member(s) would be considered for meeting eligibility norms to become member of the Governing Board.
- c) Further, in the event of suspension of trading, suspension of the registration as trading member because of any disciplinary action taken against it by the stock exchange / SEBI, the trading member shall not be eligible to continue on the Governing Board and shall also not be eligible to be elected to the Governing Board for two years from the date of expiry of such suspension of trading or suspension of registration.
- d) A trading member whose registration has been cancelled shall not be allowed to continue on the Governing Board or be eligible to be elected to the Governing Board.
- e) The persons falling in the category of Notified Persons as per the Special Courts (Trial of Offences Relating to Transactions in Securities) Act, 1992, would not continue on the Governing Board and would not be eligible to be elected to the Governing Board for two years from the date such person is notified under the said Act.
- f) A trading member of the stock exchange who was on the Governing Board of the stock exchange at the time of its supersession would not be eligible for re-election to the Governing Board of the stock exchange for a period of 2 years from the date of expiry of the order of supersession passed by SEBI.



**Chief Executive**

- 3.4 The provisions regarding the Chief Executive of the stock exchange, by whatever name called, shall be as under -
- a) The appointment, renewal of appointment and the termination of service of the Chief Executive shall be subject to prior approval of SEBI. The Exchange shall, however, determine the manner of selection, terms and conditions of appointment and other procedural formalities associated with the selection / appointment of the Chief Executive.
  - b) Further, to bring about uniformity and professionalism in the recruitment process of the Chief Executives, the stock exchanges shall constitute a Committee for the selection of Chief Executives. The Committee shall generally consist of four persons, one representative from the exchange, two outside experts and one Public Interest Director. However, constitution of the said Committee shall not require SEBI approval.
  - c) While recommending the names to SEBI, the exchange shall submit an undertaking that the necessary due diligence has been carried out by them with respect to the verification of antecedents, credentials and experience of the proposed persons.
  - d) The exchanges should ensure that adequate financial powers like sanctioning the normal revenue expenditure and issue of cheques are given to the Chief Executive for smooth functioning of the exchange. Further, one more officer shall be the co-signatory on the cheques to ensure that at least two persons sign the cheque. However no broker member of the stock exchanges shall be an office bearer of an exchange i.e. holds the position of President, Vice President, Treasurer etc. and shall not be authorized to sign any cheques or operate any bank accounts on behalf of the stock exchange
  - e) In order to ensure smooth functioning of the stock exchanges and to give administrative freedom to the Chief Executive, the elected directors shall not interfere in the day to day management of the exchange, particularly relating to the surveillance and risk management functions.
  - f) The Rules or Articles shall provide that besides the Governing Board, it shall be the duty of the Chief Executive to give effect to the directives, guidelines and other orders issued by SEBI in order to implement the applicable provisions of law, rules, regulations as also the Rules or the Articles of Association, Regulations and Bye-laws of the stock exchange. Any failure in this regard will make him liable for removal or termination of



services by the exchange with the prior approval of SEBI, subject to the concerned Chief Executive being given an opportunity of being heard against such termination.

### **Statutory Committees**

- 3.5 The provisions regarding statutory committees of stock exchanges shall be as under –
- a) The Rules or byelaws, as the case may be, of the exchange shall provide that not more than twenty percent of the members of the Arbitration Committee, Disciplinary Committee, Defaults Committee and Investor Services Committee shall be trading members.
  - b) However, the Arbitration Committee in case of disputes between a trading member and a non-trading member shall not have representation of the trading members.
  - c) The appointment of trading members on these committees shall not require SEBI approval.

### **Code of Conduct for the Directors on the Governing Board**

- 3.6 The exchange shall frame and apply a set of criteria as near thereto the SEBI (Intermediaries) Regulations, 2008 to the Directors on the Governing Board of the Exchange. All the Directors of the stock exchange shall:

#### **3.6.1 Meetings & minutes**

- a. not participate in the discussion on any subject matter in which any conflict of interest exists or arises, whether pecuniary or otherwise, and in such cases the same shall be disclosed and recorded in the minutes of the meeting.
- b. not encourage the circulation of agenda papers during the meeting, unless circumstances so require.
- c. offer their comments on the draft minutes and ensure that the same are incorporated in the final minutes.
- d. insist on the minutes of the previous meeting being placed for approval in subsequent meeting.
- e. endeavour to have the date of next meeting fixed at each Board Meeting in consultation with other members of the Governing Board.
- f. endeavour that in case all the items of the agenda of a meeting were not covered for want of time, the next meeting is held within 15 days for considering the remaining items.



3.6.2 Strategic Planning

- a. participate in the formulation and execution of strategies in the best interest of the exchange and contribute towards pro-active decision making at the Board level.
- b. give benefit of their experience and expertise to the exchange and provide assistance in strategic planning and execution of decisions.

3.6.3 Regulatory Compliances

- a. endeavour to ensure that the Exchange abides by all the provisions of the SEBI Act, 1992, Securities Contracts (Regulation) Act, 1956, Rules Regulations framed thereunder and the circulars, directions issued by the Government/SEBI from time to time.
- b. endeavour compliance at all levels so that the regulatory system does not suffer any breaches.
- c. endeavour to ensure that the exchange takes commensurate steps to honour the time limit prescribed by SEBI for corrective action.
- d. not support any decision in the meeting of the Governing Board which may adversely affect the interest of investors and shall report forthwith any such decision to SEBI.

3.6.4 General Responsibility

- a. place priority for redressing Investor Grievances and encourage fair trade practice so that the exchange becomes an engine for the growth of the securities market.
- b. endeavour to analyse and administer the exchange issues with professional competence, fairness, impartiality, efficiency and effectiveness.
- c. submit the necessary disclosures/statement of holdings/dealings in securities as required by the exchange from time to time as per their Rules or Articles of Association.
- d. unless otherwise required by law, maintain confidentiality and shall not divulge/disclose any information obtained in the discharge of their duty. Further, no such information shall be used for personal gains.
- e. maintain the highest standards of personal integrity, truthfulness, honesty and fortitude in discharge of their duties in order to inspire public confidence and shall not engage in acts discreditable to their responsibilities.
- f. perform their duties in an independent and objective manner and avoid activities that may impair, or may appear to impair, their independence or objectivity or official duties.
- g. perform their duties with a positive attitude and constructively support open communication, creativity, dedication, and compassion.





- h. not engage in any act involving moral turpitude, dishonesty, fraud, deceit, or misrepresentation or any other act prejudicial to the administration of the exchange.

### **3.7 Regulatory Orders & Arbitration Awards on Stock Exchange website**

- i. The Stock Exchanges shall post all their regulatory orders and arbitration awards issued since April 1, 2007, on their websites within 30 days. Further, all regulatory orders and arbitration awards as and when issued by Exchanges from the date of this circular shall be posted on their website immediately.
- ii. Stock Exchanges shall disclose the details of complaints lodged by clients / investors against trading members and companies listed in the exchange, in their website. The aforesaid disclosure shall also include details pertaining to arbitration and penal action against the trading members.
- iii. The format for the report for the aforesaid disclosure is given as [Annexure](#) to the circular, consisting of the following reports (*Click the hyperlink for the Reports*):
  - a. Report 1A – Complaints received from clients against trading members during the current financial year.
  - b. Report 1B – Redressal of complaints lodged by clients against trading members during the previous financial year.
  - c. Report 1C – Redressal of complaints lodged by clients against trading members during the current financial year.
  - d. Report 2A – Complaints received from investors against listed companies during the current financial year.
  - e. Report 2B – Redressal of complaints lodged by investors against listed companies during the previous financial year.
  - f. Report 2C – Redressal of complaints lodged by investors against listed companies during the current financial year.
  - g. Report 3A – Disposal of arbitration proceedings (where client is a party) during the previous financial year.
  - h. Report 3B – Disposal of arbitration proceedings (where client is a party) during the current financial year.
  - i. Report 4A – Penal actions against trading members during the previous financial year.
  - j. Report 4B – Penal actions against trading members during the current financial year

### **3.8 Code of Ethics for Directors and Functionaries of Exchanges**

The 'Code of Ethics' for Directors and Functionaries of the Stock Exchanges, is aimed at improving the professional and ethical standards in



the functioning of exchanges thereby creating better investor confidence in the integrity of the market.

### 3.8.1 **Objectives and Underlying Principles**

The code of ethics for directors and functionaries of the exchange seeks to establish a minimum level of business/ professional ethics to be followed by these functionaries, towards establishing a fair and transparent marketplace. The code of ethics is based on the following fundamental principles:

- Fairness and transparency in dealing with matters relating to the exchange and the investors
- Compliance with all laws/ rules/ regulations laid down by regulatory agencies/ exchange
- Exercising due diligence in the performance of duties
- Avoidance of conflict of interest between self interests of directors/ functionaries and interests of exchange and investors

### 3.8.2 **Definitions**

- i. Functionaries: Functionaries of the exchange to whom this code shall be applicable shall be decided by the exchange but shall include all officials of the rank of General Manager and above.
- ii. Family: Family members will include dependent spouse, dependent children, dependent parents.
- iii. Securities: Securities for the purpose of this code shall not include mutual fund units and govt. securities.

### 3.8.3 **Ethics Committee**

For overseeing implementation of this code, an Ethics Committee shall be constituted by every exchange under the respective Governing Board. Not more than 40% of the members of this committee shall be elected directors/ exchange members.

### 3.8.4 **General Standards**

- i. Directors and functionaries shall endeavour to promote greater awareness and understanding of ethical responsibilities.
- ii. Directors and functionaries, in the conduct of their business shall observe high standards of commercial honour and just and equitable principles of trade.



- iii. The conduct of Directors and functionaries in business life should be exemplary which will set a standard for other members of the exchange to follow.
- iv. Directors and functionaries shall not use their position to do or get favours from the executive or administrative staff of the exchange, suppliers of the Exchange or any listed company at the Exchange.
- v. Directors and functionaries shall not commit any act which will put the reputation of the Exchange in jeopardy.
- vi. Directors, Committee Members and functionaries of the Exchange should comply with all rules and regulations applicable to the securities market.

**3.8.5 *Prohibition on dealings in securities in proprietary account by elected office bearers of the exchange (Chairman):***

Elected office bearers (Chairman) of the exchange shall refrain from proprietary trades in securities, directly or indirectly, during the period of holding office.

**3.8.6 *Disclosure of dealings in securities by functionaries of the exchange:***

- i. Functionaries of the exchange shall disclose on a periodic basis as determined by the exchange (which could be monthly), all their dealings in securities, directly or indirectly, to the Governing Board/ Ethics Committee/ designated compliance officer.
- ii. The dealings in securities shall also be subject to trading restrictions for securities about which functionaries in the exchange may have non-public price sensitive information. Requirement laid down under SEBI Insider Trading Regulations may be referred in this regard.
- iii. All transactions must be of an investment nature and not speculative in nature. Towards this end, all securities purchased must be held for a minimum period of 60 days before they are sold. However, in specific/exceptional circumstances, sale can be effected anytime by obtaining pre-clearance from the compliance officer or any other designated authority who will be empowered to waive this condition after recording in writing his satisfaction in this regard.

**3.8.7 *Disclosure of dealings in securities by directors of the exchange:***

- i. Directors (other than elected office bearers as per clause 2) of the exchange shall disclose on a periodic basis, as determined by the exchange (which could be monthly), their proprietary trading, directly or indirectly, to the Ethics Committee.



- ii. All Directors shall also disclose on a periodic basis as above, the trading conducted by firms/corporate entities in which they hold 20% or more beneficial interest or hold a controlling interest, to the Ethics Committee.

Directors who are Govt. of India nominees or nominees of Govt. of India statutory bodies or Financial Institutions and are governed by their own codes shall be exempt from this requirement.

#### **3.8.8 *Avoidance of Conflict of Interest***

- i. No director of the governing board or member of any committee of the exchange shall participate in any decision making/adjudication in respect of any person /matter in which he is in any way, directly or indirectly, concerned or interested.
- ii. Whether there is any conflict of interest or not in a matter, should be decided by the governing board.

#### **3.8.9 *Disclosures of beneficial interest***

All Directors and functionaries shall disclose to the Governing Board, upon assuming office and during their tenure in office, whenever the following arises,

- i. any fiduciary relationship of self and family members and directorship/partnership of self and family members in any broking outfit,
- ii. shareholding, in cases where the shareholding of the director, directly or through his family exceeds 5% in any listed company on the Exchange or in other entities related to the capital markets,
- iii. any other business interests.

#### **3.8.10 *Role of the Chairman and directors in the day to day functioning of the Exchange***

- i. The Chairman and directors shall not interfere in the day to day functioning of the exchange and shall limit their role to decision making on policy issues and to issues as the Governing Board may decide.
- ii. The Chairman and directors shall abstain from influencing the employees of the Exchange in conducting their day to day activities.
- iii. The Chairman and directors shall not be directly involved in the function of appointment and promotion of employees unless specifically so decided by the Governing Board.

#### **3.8.11 *Access to Information***

- i. Directors shall call for information only as part of specific committees or as may be authorised by the Governing Board.



- ii. There shall be prescribed channels through which information shall move and further there shall be audit trail of the same. Any retrieval of confidential documents/ information shall be properly recorded.
- iii. All such information, especially which is non-public and price sensitive, shall be kept confidential and not be used for any personal consideration/ gain.
- iv. Any information relating to the business/operations of the exchange, which may come to the knowledge of directors/ functionaries during performance of their duties shall be held in strict confidence, shall not be divulged to any third party and shall not be used in any manner except for the performance of their duties.

#### 3.8.12 ***Misuse of Position***

- i. Directors/ committee members shall not use their position to obtain business or any pecuniary benefit (as intermediaries like brokers or in any other capacity like professional or consultancies) in the organization for themselves or family members.

#### 3.8.13 ***Ethics Committee to lay down procedures and designate compliance officer***

- i. The ethics committee shall lay down procedures for the implementation of the code and prescribe reporting formats for the disclosures required under the code.
- ii. The ethics committee may designate a senior officer of the exchange as compliance officer for executing the requirements laid down by it.

3.8.14 While the objective of this code is to enhance the level of market integrity and investor confidence, it is emphasized that a written code of ethics may not completely guarantee adherence to high ethical standards. This can be accomplished only if directors and functionaries of the exchange commit themselves to the task of enhancing the fairness and integrity of the system in letter and spirit.

### **Circulars : Governance of recognised Stock Exchanges**

The earlier circulars / directions issued by SEBI relating to Governance of recognised Stock Exchanges, which are compiled in this master circular, are as under -

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. SMD-II(N)/24456/93 dated December 7, 1993



4. Circular No. SMD/536/95 dated March 28, 1995
5. Circular No. Ref. SMD-II/52 dated January 10, 1996
6. Letter No. SMD/RCG/3737/96 dated August 13, 1996.
7. Circular No. SMD/POLICY/IECG/5694/96 dated December 20, 1996.
8. Circular No. SMD/POLICY/IECG/2-97 dated February 25, 1997.
9. Circular No. SMD/POLICY/CIRCULAR-27/97 dated November 05, 1997.
10. Circular No. SMD/POLICY/CIRCULAR-09/98 dated February 24, 1998.
11. Circular No. SMDRP/Policy/Cir-33/98 dated November 12, 1998.
12. Circular No. SMDRP/Policy/Cir - 25 /99 dated August 12, 1999
13. Letter No.LKS/229/2001 dated May 18, 2001
14. Circular No. SMD/POLICY/CIR-2/2002 dated January 10, 2002.
15. Letter dated September 02, 2002.
16. Circular No. SMD/Policy/Cir-8/2003 dated March 4, 2003
17. Circular No. SEBI/SMD/SE/Cir- 19/2003/02/06 dated June 02, 2003
18. Circular No. MRD/DOP/SE/Cir-5/2005 dated February 9, 2005
19. Letters dated August 31, 2005 / September 21, 2005.
20. Letter dated November 6, 2008.
21. Letters dated February 20, 2009
22. Circular No. MRD/DoP/SE/Cir-10/2009 dated September 03, 2009
23. Circular No. SEBI/MRD/DSA-OIAE/Cir.09/2010 dated April 1, 2010



#### IV. ARBITRATION IN RECOGNISED STOCK EXCHANGES

##### Conformity of the Exchange Bye-Laws with the Arbitration and Conciliation Act, 1996

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

##### 4.2 Arbitration Mechanism in Stock Exchanges

- 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.

##### 4.3 Maintenance of a Panel of Arbitrators

- 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.
- 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.

#### **4.4 Code of Conduct for Arbitrators**

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 thereunder and the circulars, directions issued by the Government / SEBI;
- viii. endeavour 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.

#### **4.5 Arbitration**

- 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.

#### **4.6 Appellate Arbitration**

- 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.

#### **4.7 Arbitration Fees**

- 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 within six months) 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:



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 for the same within six months, shall be exempt from the deposit.
- 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 the decision by the committee) to resolve the dispute under its Rules, Bye-laws & 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 item 6 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.”

#### **4.8 Place of Arbitration**

- i. The Stock Exchanges having nationwide terminals, such as National Stock Exchange of India Ltd., Bombay Stock Exchange Ltd., MCX Stock Exchange Ltd., and United Stock Exchange of India Ltd., shall provide arbitration facility (arbitration as well as appellate arbitration) at all four regional centres (Delhi, Mumbai, Kolkata and Chennai). The arbitration and appellate arbitration shall be conducted at the regional centre nearest to the client. 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 such regional centre.
- ii. Other stock exchanges shall provide the arbitration facility, including appellate arbitration, at the place where it is located.

#### **4.9 Implementation of Arbitral Award in favour of Clients**

- 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.
- 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.

#### **4.10 Record and Disclosures**

- 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](#). *(Click the hyperlink for the format)*

#### **Circulars : Arbitration in recognised Stock Exchanges**

The earlier circulars / directions issued by SEBI relating to Arbitration in recognised Stock Exchanges, which are compiled in this master circular, are as under:

1. Circular No. SMD/POLICY/CIRCULAR/3-97, dated March 31, 1997
2. Circular No. SMD/MRD/DSA/24/2010 dated August 11, 2010
3. Circular No. CIR/MRD/DSA/29/2010 dated August 31, 2010



**V. SMALL AND MEDIUM ENTERPRISES (SME) : SETTING UP OF STOCK EXCHANGE / A TRADING PLATFORM BY A RECOGNIZED STOCK EXCHANGE HAVING NATIONWIDE TRADING TERMINALS FOR SME**

- 5.1 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).
- 5.2 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).
  - (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.
- (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.

**5.3 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 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.

- 5.4 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).
- 5.5 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).
- 5.6 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 supercession 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





## भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

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 and Maintaining Public Shareholding in Recognised Stock Exchanges) Regulations, 2006;
- (ii) It has a balance sheet network of at least 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 nation wide 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.

## **VI. SMALL AND MEDIUM ENTERPRISE (SME) : GUIDELINES FOR MARKET MAKERS ON SME EXCHANGE / SEPARATE PLATFORM OF EXISTING EXCHANGE HAVING NATION WIDE TERMINAL**

6.1 SEBI has put in a framework for setting up of new exchange or separate platform of existing stock exchange having nationwide terminals for SME (hereinafter referred to as the 'Exchange/ SME Exchange'). As per the framework, market making has been made mandatory in respect of all scrips listed and traded on SME exchange. The following guidelines shall be applicable to the Market Makers on this exchange.

### **i. Applicability**

These guidelines are applicable to all the registered Market makers for making market in all scrips listed and traded on SME exchange.

### **ii. Registration of the Market Maker**

Any member of the Exchange would be eligible to act as Market Maker provided the criteria laid down by the exchange are met. The member brokers desirous of acting as Market Maker in this exchange shall apply to the concerned stock exchange for registration as Market Makers unless already registered as a Market Maker.

### **iii. The obligations and responsibilities of Market Makers**

The Market Maker shall fulfil the following conditions to provide depth and continuity on this exchange:

- (a) The Market Maker shall be required to provide a 2-way quote for 75% of the time in a day. The same shall be monitored by the stock exchange. Further, the Market Maker shall inform the exchange in advance for each and every black out period when the quotes are not being offered by the Market Maker.
- (b) The minimum depth of the quote shall be Rs.1,00,000/- . However, the investors with holdings of value less than Rs 1,00,000 shall be allowed to offer their holding to the Market Maker in that scrip provided that he



sells his entire holding in that scrip in one lot along with a declaration to the effect to the selling broker.

- (c) Execution of the order at the quoted price and quantity must be guaranteed by the Market Maker, for the quotes given by him.
- (d) There would not be more than five Market Makers for a scrip. These would be selected on the basis of objective criteria to be evolved by the Exchange which would include capital adequacy, networth, infrastructure, minimum volume of business etc.
- (e) The Market Maker may compete with other Market Makers for better quotes to the investors;
- (f) Once registered as a Market Maker, he has to start providing quotes from the day of the listing / the day when designated as the Market Maker for the respective scrip and shall be subject to the guidelines laid down for market making by the exchange
- (g) Once registered as a Market Maker, he has to act in that capacity for a period as mutually decided between the Merchant Banker and the market maker.
- (h) Further, the Market Maker shall be allowed to deregister by giving one month notice to the exchange, subject to (g) above.

#### **iv. Dissemination of Information**

The exchange should disseminate the list of Market Makers for the respective scrip to the public.

#### **v. Number of Shares per Market Maker**

The number of companies in whose shares a Market Maker would make market should be linked to his capital adequacy as decided by the exchange.

#### **vi. Risk Containment Measures and monitoring for Market Makers**

All applicable margins should be levied and collected without any waiver/exemption.

#### **Capital Adequacy**

The exchanges would prescribe the capital adequacy requirement for its members to commensurate with the number of companies which Market Maker proposes to make market. Further, the stock exchange may lay down additional criteria also for Market Makers as risk containment measures. The same shall be monitored by the stock exchange.

#### **Monitoring**



All the requirements with regard to market making shall be monitored by the stock exchange and any violation of these requirements would be liable for punitive action to be taken by the Disciplinary Action Committee (DAC) of the Exchange, which may also include monetary penalty apart from the trade restriction as decided by the DAC under intimation to the Merchant Banker.

#### **vii. Price Band and Spreads**

The exchanges shall prescribe the maximum spread between bid and ask price. The exchange, may at its discretion also prescribe the price bands for the same. Further, in case of new issue the spread shall also be specified in the offer document with the prior approval of the exchange

**Circulars : Small and Medium Enterprises** : Setting up of Stock Exchange / a trading platform by a recognized stock exchange having nationwide trading terminals for SME

1. Circular No.MRD/DP/14/2010 dated April 26, 2010
2. Circular No. CIR/MRD/DSA/17/2010 dated May 18, 2010

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