

CHIEF GENERAL MANAGER
Market Intermediaries Regulation
& Supervision Department
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SEBI/MIRSD//Cir-06/2004

January 13, 2004

The Executive Directors/Managing Director/Administrators
of All Stock Exchanges

Dear Sir/Madam,

Sub:- Review of norms relating to trading by members/sub brokers.

1. During the course of inspections carried out by SEBI of the books of accounts and other documents of members/sub brokers, it has been observed that certain members/sub brokers are dealing through a large number of other stock brokers/sub brokers of the same exchange/other exchange for their proprietary trades as well as trades on behalf of clients.
2. Trading through large number of brokers/sub brokers raises serious issues of regulatory concerns including taking excessive exposure, executing pro account trading from multiple locations in violation of SEBI circular no. SEBI/MRD/SE/Cir-32/2003/27/08 dated August 27, 2003, possibility of over leveraging and default etc.
3. With a view to address these concerns, stock exchanges are directed to ensure the following:-
 - 3.1 A stock broker/ sub broker of an exchange can not deal with brokers/sub brokers of the same exchange either for proprietary trading or for trading on behalf of clients, except with the prior permission of the exchange. The stock exchanges while giving such permission, shall consider the reasons stated by the brokers/sub brokers for dealing with brokers/sub brokers of the same exchange and after carrying out due diligence allow such brokers/sub brokers to deal with only one stock broker/sub broker of the same exchange.
 - 3.2 A stock broker/sub broker of an exchange can deal with only one broker/sub broker of another exchange for proprietary trading after intimating the names of such stock broker/sub broker to his parent stock exchange.

- 3.3 As per Regulation 15(1) (e) of the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 a sub-broker shall not be affiliated to more than one stock broker of one stock exchange. It is reiterated that a stock broker of an exchange can deal with only one broker of another exchange on behalf of clients after obtaining necessary registration as a sub broker.
4. Stock Exchanges are directed to implement the above requirement with immediate effect and take necessary disciplinary action wherever violation of the above provisions are observed.
5. The undersigned has been authorized to direct the exchanges to
- 5.1 make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision immediately
- 5.2 bring the provisions of this circular to the notice of the member brokers/sub brokers affiliated to the members of the exchange and also to disseminate the same on the website.
- 5.3 communicate to SEBI, the status of the implementation of the provisions of this circular in the Monthly Development Report for the month of January 2004.
6. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with Section 10 of the Securities Contracts (Regulation) Act 1956, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

USHA NARAYANAN