

**CHIEF GENERAL MANAGER
MARKET REGULATION DEPARTMENT**

MRD/DSA/SE/Cir.-34 /2008
December 05, 2008

**The Managing Directors / Chief Executive Officers /
Executive Directors / Officiating Executive Directors
of all the Stock Exchanges,**

Dear Sir/Madam,

Sub: **Maintenance of Security Deposit of 1% of the amount of securities offered to public/shareholders by issuer companies with the designated stock exchanges**

1. Your attention is drawn to Clause 42 of the Listing Agreement which requires that every company proposing to issue new securities, shall, as a condition precedent, deposit before the opening of subscription list and keep deposited with the designated exchange, an amount calculated at the rate of 1% of the amount of securities (hereinafter referred to as 'security deposit') offered for subscription to the public and/or to the holders of existing securities of the company, as the case may be, for ensuring compliance by the company, within the prescribed or stipulated period, of all prevailing requirements of law. The said clause also prescribes that 50% of such security deposit shall be paid to the Exchange in cash and the balance amount can be provided for by way of a bank guarantee. Further, Clause 16.2.4 of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 prescribes that the security deposit so deposited with the designated stock exchanges can be released by the concerned stock exchange only after obtaining a 'NOC' from SEBI.

2. It has come to the notice of the SEBI that in many cases, the bank guarantees so kept with the stock exchanges under Clause 42 of the listing agreement, have expired and the exchanges have neither taken any step to prevent such eventuality nor to revive the bank guarantees so expired. By allowing such bank guarantees to expire, the stock exchanges have compromised with an important mechanism available for redressal of investor grievances.
3. In view of the above, the stock exchanges are hereby directed :
 - a) to recoup immediately any shortfall in the deposit that has been caused due to the expiry of such bank guarantees by taking either cash or fresh/re-validated bank guarantees from the concerned issuer companies.
 - b) to put in place a system to keep track of the bank guarantees furnished to it by the issuer companies. The said system should generate alerts atleast one month prior to the expiry of such bank guarantees, so that the stock exchanges have sufficient time to require the issuer companies to provide fresh/renewed bank guarantees in place of the bank guarantees about to expire.
 - c) To invoke such bank guarantees before it expires, if any issuer company fails to satisfy the shortfall in the deposit amount either by cash or by fresh/renewed bank guarantees, within the time frame given in this regard, inspite of the said advise from the stock exchange.
4. Further, some stock exchanges have sought advice as to whether they can adjust the 1% security deposit against the dues payable to them by the issuer companies. It is hereby clarified that the stock

exchanges shall maintain the said 1% security deposit at all times and no adjustment against any dues of the company can be permitted.

5. This circular is being issued under Section 11(1) of the SEBI Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and the directions contained in Para 3 above shall be implemented by all the stock exchanges within three months from the date of issue of this circular under intimation to SEBI.

This circular is available on SEBI website at www.sebi.gov.in.

Yours faithfully,

D. RAVIKUMAR