

**SECURITIES AND EXCHANGE BOARD OF INDIA  
(STOCK-BROKERS AND SUB-BROKERS) REGULATIONS, 1992**

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**THE GAZETTE OF INDIA EXTRAORDINARY**  
**PART II - SECTION 3 - SUB-SECTION (ii)**  
**PUBLISHED BY AUTHORITY**  
**NOTIFICATION**  
**THE 23<sup>rd</sup> DAY OF OCTOBER 1992**  
**NEW DELHI**

**SECURITIES AND EXCHANGE BOARD OF INDIA**  
**(STOCK BROKERS AND SUB-BROKERS) REGULATIONS, 1992**

S.O.780 (E):- In exercise of the powers conferred by section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Board hereby <sup>1</sup>[\*\*\*\*\*] makes the following regulations, namely: -

**CHAPTER I**  
**PRELIMINARY**

**Short title and commencement.**

1. (1) These regulations may be called the Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992.
- (2) These regulations shall come into force on the date of their publication in the Official Gazette.

**Definitions.**

2. In these regulations, unless the context otherwise requires :—

- <sup>2</sup>[(a) “Act” means the Securities and Exchange Board of India Act, 1992 (15 of 1992);
- (aa) “certificate” means a certificate of registration issued by the Board;
- (ab) “change of status or constitution” in relation to a stock broker or a sub-broker means any change in its status or constitution of whatsoever nature and includes—
  - (i) in case of a body corporate—
    - (A) amalgamation, demerger, consolidation or any other kind of corporate restructuring falling within the scope of section 391 of the Companies Act, 1956 (1 of 1956) or the corresponding provision of any other law for the time being in force;
    - (B) change in its managing director, whole-time director or director appointed in compliance with clause (v) of sub-rule (4A) of rule 8 of the Securities Contracts (Regulation) Rules, 1957; and
    - (C) any change in control over the body corporate;

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<sup>1</sup> Words ‘with the previous approval of the Central Government’ omitted by the SEBI (Stock Brokers and Sub-brokers) (Third Amendment) Regulations, 1998, w.e.f. 16-12-1998.

<sup>2</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006.

- (ii) any change between the following legal forms - individual, partnership firm, Hindu undivided family, private company, public company, unlimited company or statutory corporation and other similar changes;
  - (iii) in case of a partnership firm any change in partners not amounting to dissolution of the firm;
- (ac) “change in control”, in relation to a stock broker or a sub-broker being a body corporate, means :—
- (i) if its shares are listed on any recognised stock exchange, change in control within the meaning of regulation 12 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997;
  - (ii) in any other case, change in the controlling interest in the body corporate;  
Explanation : For the purpose of sub-clause (ii), the expression “controlling interest” means an interest, whether direct or indirect, to the extent of at least fifty-one per cent of voting rights in the body corporate;]
- <sup>3</sup> [ <sup>4</sup> [(ad)] “clearing corporation or clearing house” means the clearing corporation or clearing house of a recognised stock exchange to clear and settle trades in securities;
- <sup>5</sup> [(ae)] “clearing member” means a member of a clearing corporation or clearing house of the derivatives exchange or derivatives segment of an exchange <sup>6</sup> [or currency derivatives segment of an exchange], who may clear and settle transactions in securities;]
- (aaa) <sup>7</sup> [\*\*\*]
- (b) “form” means a form specified in Schedule I;
  - (c) “inspecting authority” means one or more persons appointed by the Board to exercise powers conferred under Chapter V of these regulations;
  - (d) “regulations” means Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992;
  - (e) <sup>8</sup> [\*\*\*]
  - (f) “Securities Contracts (Regulation) Act” means the Securities Contracts (Regulation) Act, 1956 (42 of 1956);
- <sup>9</sup> [(fa) “self-clearing member” means a member of a clearing corporation or clearing house of the derivatives exchange or derivatives segment of a stock exchange

<sup>3</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2000, w.e.f. 14-3-2000.

<sup>4</sup> Clause (a) renumbered as clause ((ad) by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006

<sup>5</sup> Clause (aa) renumbered as clause (ae) ) by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment)

Regulations, 2006, w.e.f. 7-9-2006

<sup>6</sup> Inserted by the SEBI (Stock Brokers and Sub-Brokers) (Amendment) Regulations, 2008 w.e.f 11-08-2008.

<sup>7</sup> Omitted by the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, w.e.f. 27-9-2002.

<sup>8</sup> Omitted by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006. Prior to omission, it was read as, “rules means Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Rules, 1992

who may clear and settle transactions on its own account or on account of its clients only, and shall not clear or settle transactions in securities for any other trading member(s);]

- (g) “small investor” means any investor buying or selling securities on a cash transaction for a market value not exceeding rupees fifty thousand in aggregate on any day as shown in a contract note issued by the stock broker;
- <sup>10</sup>[(ga) “stock exchange” means a stock exchange which is for the time being recognised by the Central Government or by the Board under section 4 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956);
- (gb) “stock broker” means a member of a stock exchange;
- (gc) “sub-broker” means any person not being a member of stock exchange who acts on behalf of a stock broker as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such stock brokers;]
- <sup>11</sup>[<sup>12</sup>[(gd)] “trading member” means a member of the derivatives exchange or derivatives segment of a stock exchange <sup>13</sup>[or currency derivatives segment of an exchange] and who settles the trade in the clearing corporation or clearing house through a clearing member;]
- (h) all other words and expressions occurring in these regulations shall bear the same meaning as in the Act <sup>14</sup>[\*\*\*].

## CHAPTER II

### REGISTRATION OF STOCK BROKERS

#### Application for registration of stock broker.

**3.** (1) An application by a stock broker for grant of a certificate shall be made in ‘Form A’ through the stock exchange or stock exchanges, as the case may be, of which he is admitted as a member.

(2) The stock exchange shall forward the application form to the Board as early as possible but not later than thirty days from the date of its receipt.

(3) Notwithstanding anything contained in sub-regulation (1), any application made by a stock broker prior to coming into force of these regulations containing such particulars or as near thereto as mentioned in the ‘Form A’ shall be treated as an application made in pursuance of sub-regulation (1) and dealt with accordingly :

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<sup>9</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

<sup>10</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006. [(ga) was renumbered as (gd) and before this the clause, the clauses (ga) to (gd) was inserted.]

<sup>11</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2000, w.e.f. 14-3-2000.

<sup>12</sup> Clause (ga) renumbered as clause (gd) by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment)

Regulations, 2006, w.e.f. 7-9-2006.

<sup>13</sup> Inserted by the SEBI (Stock Brokers and Sub-Brokers) (Amendment) Regulations, 2008 w.e.f. 11-08-2008.

<sup>14</sup> Words “and the rules” omitted by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006.

Provided that the requirement of the payment of fees shall be the same as is referred to in sub-regulation (1) of regulation 10.

**Furnishing of information, clarification, etc.**

4. (1) The Board may require the applicant to furnish such further information or clarifications regarding the dealings in securities and matter connected thereto to consider the application for grant of a certificate.

(2) The applicant or, its principal officer shall, if so required, appear before the Board for personal representation.

**Consideration of application.**

5. The Board shall take into account for considering the grant of a certificate all matters relating to buying, selling, or dealing in securities and in particular the following, namely, whether the stock broker—

- (a) is eligible to be admitted as a member of a stock exchange;
- (b) has the necessary infrastructure like adequate office space, equipments and man power to effectively discharge his activities;
- (c) has any past experience in the business of buying, selling or dealing in securities;
- (d) is subjected to disciplinary proceedings under the rules, regulations and bye-laws of a stock exchange with respect to his business as a stock-broker involving either himself or any of his partners, directors or employees;

<sup>15</sup> [(e) is a fit and proper person.]

<sup>16</sup> **[Criteria for fit and proper person.**

**5A.** For the purpose of determining whether an applicant or the stock broker, sub-broker, trading member and clearing member is a fit and proper person, the Board may take into account the criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.]

**Procedure for registration.**

6. The Board on being satisfied that the stock-broker is eligible, shall grant a certificate in 'Form D' to the stock-broker and send an intimation to that effect to the stock exchange or stock exchanges as the case may be.

<sup>17</sup> [Provided that, subject to the conditions of regulation 6A, a stock broker holding a certificate of registration with respect to membership of a recognised stock exchange having nationwide trading terminals shall be eligible for trading on SME platform established by such stock exchange without obtaining a separate certificate of registration for trading on the SME platform.

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<sup>15</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 1998, w.e.f. 5-1-1998.

<sup>16</sup> Substituted by the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, w.e.f. 26-05-2008. Prior to its substitution, the Regulation 5A as inserted by the Securities and Exchange Board of India (Criteria for Fit and Proper Person) Regulations, 2004, w.e.f. 10-03-2004, read as under:

“5A. Applicability of Securities and Exchange Board of India (Criteria for Fit and Proper Person) Regulations, 2004.- The Provisions of the Securities and Exchange Board of India (Criteria for Fit and Proper Person) Regulations, 2004 shall, as far as may be, apply to all applicants or the stock brokers, sub-brokers, trading members and clearing members under these regulations’

<sup>17</sup> The proviso and explanation was inserted by the SEBI(Stock Brokers and Sub-brokers) (Amendment) Regulations, 2010 w.e.f. 13-04-2010.

Explanation: For the purpose of this regulation, SME platform means a trading platform of a recognised stock exchange having nationwide trading terminals and permitted by the Board to list the securities issued in accordance with Chapter XA of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.]

<sup>18</sup>**[Conditions of registration.**

**6A.** (1) Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely—

- (a) the stock broker holds the membership of any stock exchange;
- (b) he shall abide by the rules, regulations and bye-laws of the stock exchange which are applicable to him;
- (c) where the stock broker proposes to change his status or constitution, he shall obtain prior approval of the Board for continuing to act as such after the change;
- (d) he shall pay fees charged by the Board in the manner provided in these regulations; and
- (e) he shall take adequate steps for redressal of grievances, of the investors within one month of the date of receipt of the complaint and keep the Board informed about the number, nature and other particulars of the complaints received from such investors.

(2) Nothing contained in clause (c) of sub-regulation (1) shall affect the obligation to obtain a fresh registration under section 12 of the Act in a case where it is applicable.]

**Stock brokers to abide by Code of Conduct.**

**7.** The stock broker holding a certificate shall at all times abide by the Code of Conduct as specified in Schedule II.

**Procedure where registration is not granted.**

**8.** (1) Where an application for grant of a certificate under regulation 3, does not fulfil the requirements mentioned in regulation 5, the Board may reject the application after giving a reasonable opportunity of being heard.

(2) The refusal to grant the registration certificate shall be communicated by the Board within thirty days of such refusal to the concerned stock exchange and to the applicant stating therein the grounds on which the application has been rejected.

(3) An applicant may, being aggrieved by the decision of the Board under sub-regulation (2) apply within a period of thirty days from the date of receipt of such intimation, to the Board for reconsideration of its decision.

(4) The Board shall reconsider an application made under sub-regulation (3) and communicate its decision as soon as possible in writing to the applicant and to the concerned stock-exchange.

**Effect of refusal of certificate of registration.**

**9.** A stock-broker, whose application for grant of a certificate has been refused by the Board, shall not, on and from the date of the receipt of the communication under sub-regulation (2) of regulation 8 buy, sell, or deal in securities as a stock-broker.

**Payment of fees and the consequences of failure to pay fees.**

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<sup>18</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006.



**10.** (1) Every applicant eligible for grant of a certificate shall pay such fees and in such manner as specified in Schedule III <sup>19</sup>[or Schedule IIIA, as the case may be] : Provided that the Board may on sufficient cause being shown permit the stock-broker to pay such fees at any time before the expiry of six months from the date on which such fees become due.

(2) Where a stock-broker fails to pay the fees as provided in regulation 10, the Board may suspend the registration certificate, whereupon the stock-broker shall cease to buy, sell or deal in securities as a stock-broker.

### **CHAPTER III REGISTRATION OF SUB-BROKERS**

<sup>20</sup>**[Registration as sub-broker.**

**11.** (1) No sub-broker shall act as such unless he holds a certificate granted by the Board under these regulations.

(2) No fresh certificate needs to be obtained under sub-regulation (1) where a sub-broker merely changes his affiliation from one stock broker to another stock broker, being a member of the same stock exchange.]

<sup>21</sup>[(3) Subject to the provisions of regulation 12A, no fresh certificate need to be obtained under sub-regulation (1) where a registered sub-broker is affiliated to stock broker who is eligible to trade on SME platform.

Explanation: For the purpose of this regulation, SME platform means a trading platform of a recognised stock exchange having nationwide trading terminals and permitted by the Board to list the securities issued in accordance with Chapter XA of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.]

**Application for registration of sub-broker.**

<sup>22</sup>**[11A].** (1) An application by a sub-broker for the grant of a certificate shall be made in 'Form B'.

(2) The application for registration under sub-regulation (1) above, shall be accompanied by a recommendation letter in 'Form C' from a stock-broker of a recognised stock exchange with whom he is to be affiliated along with two references including one from his banker.

(3) The application form shall be submitted to the stock exchange of which the stock-broker with whom he is to be affiliated is a member.

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<sup>19</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Third Amendment) Regulations, 2006, w.e.f. 1-10-2006.

<sup>20</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers)(Second Amendment) Regulations, 2006, w.e.f. 7-9-2006.

<sup>21</sup> The sub-regulation (3) and explanation was inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2010, w.e.f. 13-04-2010.

<sup>22</sup> Renumbered as 11A by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006.

(4) The stock exchange on receipt of an application under sub-regulation (3) shall verify the information contained therein and shall also certify that the applicant is eligible for registration as per criteria specified in sub-regulation (5).

(5) The eligibility criteria for registration as a sub-broker shall be as follows, namely :—

(i) in the case of an individual;

(a) the applicant is not less than 21 years of age;

(b) the applicant has not been convicted of any offence involving fraud or dishonesty;

(c) the applicant has at least passed 12th standard equivalent examination from an institution recognised by the Government :

Provided that the Board may relax the educational qualifications on merits having regard to the applicant's experience;

<sup>23</sup>[(d) the applicant is a fit and proper person;]

(ii) in the case of partnership firm or a body corporate the partners or directors, as the case may be, shall comply with the requirements contained in clauses (a) to (c) of sub-regulation (i);

<sup>24</sup>[(iii) the applicant has the necessary infrastructure like adequate office space, equipment and manpower to effectively discharge his activities;

(iv) the applicant shall be a person recognized by the stock exchange as a sub-broker affiliated to a member broker of the stock exchange.]

<sup>25</sup>[(6) The stock exchange shall forward the application in Form 'B' of such applicant along with the recommendation letter in Form 'C' issued by the stock broker with whom he is affiliated and also the recognition letter in Form 'CA' issued by the stock exchange to the Board within 30 days from the date of the receipt of the application.]

#### **Procedure for registration.**

**12.** (1) The Board on being satisfied that the sub-broker is eligible, shall grant a certificate in 'Form E' to the sub-broker and send an intimation to that effect to the stock exchange or stock exchanges, as the case may be.

(2) The Board may grant a certificate of registration to the applicant subject to the terms and conditions <sup>26</sup>[laid down in sub-regulation (1) of regulation 12A].

#### **<sup>27</sup>[Conditions of registration.**

**12A.** (1) Any registration granted by the Board under regulation 12 shall be subject to the following conditions, namely :—

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<sup>23</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 1998, w.e.f. 5-1-1998.

<sup>24</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

<sup>25</sup> Substituted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

Prior to substitution, it was read as under, "The stock exchange shall forward the application who comply with all the requirements specified in sub-regulations (1) to (5) to the Board as early as possible, but not later than thirty days from the date of its receipt."

<sup>26</sup> Substituted for "as stated in rule 5" by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006.

<sup>27</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006.

- (a) he shall abide by the rules, regulations and bye-laws of the stock exchange which are applicable to him;
  - (b) where the sub-broker proposes to change his status or constitution, he shall obtain prior approval of the Board for continuing to act as such after the change;
  - (c) he shall pay fees charged by the Board in the manner provided in these regulations;
  - (d) he shall take adequate steps for redressal of grievances, of the investors within one month of the date of receipt of the complaint and keep the Board informed about the number, nature and other particulars of the complaints received from such investors; and
  - (e) he is authorized in writing by a stock-broker being a member of a stock exchange for affiliating himself in buying, selling or dealing in securities.
- (2) Nothing contained in clause (b) of sub-regulation (1) shall affect the obligation to obtain a fresh registration under section 12 of the Act in a case where it is applicable.]

**Procedure where registration is not granted.**

**13.** (1) Where an application for grant of a certificate under regulation <sup>28</sup>[11A], does not fulfill the requirements mentioned in regulation <sup>29</sup>[11A], the Board may reject the application after giving a reasonable opportunity of being heard.

(2) The refusal to grant the certificate shall be communicated by the Board within thirty days of such refusal to the concerned stock exchange and to the applicant in writing stating therein the grounds on which the application has been rejected.

(3) An applicant may, being aggrieved by the decision of the Board under sub-regulation (2), within a period of thirty days from the date of receipt of such intimation, apply to the Board for reconsideration of its decision.

(4) The Board shall reconsider an application made under sub-regulation (3) and communicate its decision as soon as possible in writing to the applicant and to the concerned stock exchange.

**Effect of refusal.**

**14.** A person whose application for grant of a certificate has been refused by the Board shall, on and from the date of the communication of refusal under regulation 13, cease to carry on any activity as a sub-broker.

**General obligations and inspection.**

**15.** (1) The sub-broker shall—

- (a) pay the fees as specified in Schedule III;
- (b) abide by the Code of Conduct specified in Schedule II;
- (c) enter into an agreement with the stock-broker for specifying the scope of his authority and responsibilities;
- <sup>30</sup>[(d) comply with the rules, regulations and bye-laws of the stock exchange;

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<sup>28</sup> Substituted for “11” by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006.

<sup>29</sup> Substituted for “11” by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006.

<sup>30</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

(e) not be affiliated to more than one stock broker of one stock exchange.]

(2) The sub-broker shall keep and maintain the books and documents specified in regulation 17 except for the books and documents referred to in clauses (h), (i), (j),<sup>31</sup> [\*\*\*] (l) and (m) of sub-regulation (1) of regulation 17.

<sup>32</sup>[**Director not to act as sub-broker.**

**15A.** No director of a stock broker shall act as a sub-broker to the same stock broker.]

#### **Application of Chapters IV, V & VI.**

**16.** The provisions of Chapters IV, V and VI of these regulations shall apply to a sub-broker as they apply in case of a stock broker.

### <sup>33</sup>[**CHAPTER IIIA**

#### **REGISTRATION OF TRADING AND CLEARING MEMBERS**

##### **Application for registration of trading member or clearing member.**

**16A.** (1) An application for grant of certificate of registration by a trading member of a derivatives exchange or derivatives segment of a stock exchange shall be made in Form AA of Schedule I, through the concerned derivatives exchange or derivative segment of a stock exchange of which he is a member.

(2) An application for grant of certificate of registration by a clearing member<sup>34</sup> [or self-clearing member] of the clearing corporation or clearing house of a derivatives exchange or derivatives segment of a stock exchange, shall be made in Form AA of Schedule I, through the concerned clearing corporation or clearing house of which he is a member :

Provided that a trading member who also seeks to act as a clearing member<sup>35</sup> [or self-clearing member] shall make separate applications for each activity in Form AA of Schedule I.

(3) The derivatives exchange or segment or clearing house or corporation as the case may be shall forward the application to the Board as early as possible but not later than thirty days from the date of its receipt.

##### **Furnishing of information, clarification, etc.**

**16B.** (1) The Board may require the applicant or the concerned stock exchange or segment or clearing house or corporation to furnish such other information or clarifications, regarding the trading and settlement in derivatives and matters connected thereto, to consider the application for grant of a certificate.

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<sup>31</sup> The words, '(k)' omitted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003

<sup>32</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

<sup>33</sup> Chapter III –A, consisting of regulations 16A to 16-I, inserted by the SEBI (Stock Brokers and Subbrokers)(Amendment) Regulations, 2000, w.e.f. 14-3-2000.

<sup>34</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

<sup>35</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

(2) The applicant or its principal officer shall, if so required, appear before the Board for personal representation.

**Consideration of application.**

**16C.** (1) The Board shall take into account for considering the grant of a certificate all matters relating to dealing and settlement in derivatives and in particular the following, namely, whether the applicant—

- (a) is eligible to be admitted as a trading member of a derivatives exchange and/or a clearing member of a derivatives exchange or derivatives segment of a stock exchange or clearing corporation or house;
- (b) has the necessary infrastructure like adequate office place, equipment and man-power to effectively undertake his activities;
- (c) is subjected to disciplinary proceedings under the rules, regulations and bye-laws of any stock exchange with respect to his business as a stock broker or member of a derivatives exchange or segment or member of clearing house or corporation involving either himself or any of his partners, directors or employees;

<sup>36</sup>[(d) has any financial liability which is due and payable to the Board under these regulations.]

(2) An applicant who desires to act as a trading member, in addition to complying with the requirements of sub-regulation (1), shall have a net-worth as may be specified by the derivatives exchange or segment from time to time and the approved user and sales personnel of the trading member have passed a certification programme approved by the Board.

(3) An applicant who desires to act as a clearing member, in addition to complying with the requirements of sub-regulation (1), shall have a minimum net worth of Rs. 300 lacs and shall deposit at least a sum of Rs. 50 lacs or higher amount with the clearing corporation or clearing house of the derivatives exchange or derivatives segment in the form specified from time to time.

<sup>37</sup>[(4) An applicant who desires to act as a self-clearing member, in addition to complying with the requirements of sub-regulation (1), shall have a minimum net worth of Rs. 100 lacs and shall deposit at least a sum of Rs. 50 lacs or higher amount with the clearing corporation or clearing house of the derivatives exchange or derivatives segment in the form specified from time to time.]

Explanation : For the purpose of sub-regulations <sup>38</sup>[(2), (3) and (4)], the expression 'net worth' shall mean paid up capital and free reserves and other securities approved by the Board from time to time (but does not include fixed assets, pledged securities, value of member's card, non-allowable securities (unlisted securities), bad deliveries, doubtful debts and advances (debts or advances overdue for more than three months or debts or advances given to the associate persons of the member), prepaid expenses, losses, intangible assets and 30% value of marketable securities).

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<sup>36</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2002, w.e.f. 20-2-2002.

<sup>37</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

<sup>38</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

**Procedure for registration.**

**16D.** The Board on being satisfied that the applicant is eligible, shall grant a certificate in Form DA of Schedule I, to the applicant and send an intimation to that effect to the derivatives segment of the stock exchange or derivatives exchange or clearing corporation or clearing house, as the case may be.

**Procedure where registration is not granted.**

**16E.** (1) Where an application for the grant of a certificate under regulation 16A does not fulfil the requirements specified in regulation 16C of the Regulations, the Board may reject the application of the applicant after giving a reasonable opportunity of being heard.

(2) The refusal to grant the certificate of registration shall be communicated by the Board within 30 days of such refusal to the concerned segment of the stock exchange, or clearing house or corporation and to the applicant stating therein the grounds on which the application has been rejected.

(3) An applicant may, if aggrieved by the decision of the Board under sub-regulation (2) apply within a period of thirty days from the date of receipt of such information to the Board for reconsideration of its decision.

(4) The Board shall reconsider an application made under sub-regulation (3) and communicate its decision as soon as possible in writing to the applicant and to the concerned segment of the stock exchange or clearing house or corporation.

**Effect of refusal of certificate of registration.**

**16F.** An applicant, whose application for the grant of a certificate of registration has been refused by the Board, shall not, on and from the date of receipt of the communication under sub-regulation (2) or sub-regulation (4) of regulation 16E, deal in or settle the derivatives contracts as a member of the derivatives exchange or derivatives segment or clearing corporation or clearing house.

**Payment of fees and consequences of failure to pay fees.**

**16G.** (1) Every applicant eligible for grant of a certificate as a trading or clearing member <sup>39</sup>[or self-clearing member] shall pay such fee and in such manner as specified in Schedule IV.

(2) Where a trading or clearing member <sup>40</sup>[or self-clearing member] fails to pay the fees as provided in sub-regulation (1), the Board may suspend or cancel the registration certificate after giving an opportunity of being heard, whereupon the trading and clearing member <sup>41</sup>[or self-clearing member] shall cease to deal in or settle the derivatives contract as a member of the derivatives segment of the exchange or derivatives exchange or clearing corporation or clearing house.

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<sup>39</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

<sup>40</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

<sup>41</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

**Trading member/clearing member <sup>42</sup>[or self-clearing member] to abide by the code of conduct, etc.**

**16H.** (1) The code of conduct specified for the stock brokers as stipulated in Schedule II, shall be applicable mutatis mutandis to the trading member, clearing member and such members shall at all times abide by the same.

(2) The trading member and clearing member shall abide by the code of conduct as specified in the rules, bye-laws and regulations of the derivatives exchange or derivatives segment of the exchange.

(3) The trading members shall obtain details of the prospective clients in 'know your client' format as specified by the Board before executing an order on behalf of such client.

(4) The trading member shall mandatorily furnish 'risk disclosure document' disclosing the risk inherent in trading in derivatives to the prospective clients in the form specified by the derivatives exchange or derivatives segment.

(5) The trading or clearing member shall deposit margin or any other deposit and shall maintain position or exposure limit as specified by the Board or the concerned exchange or segment or clearing corporation or clearing house from time to time.

<sup>43</sup>[(6) The provisions of sub-regulations (1) to (5) shall be applicable mutatis mutandis to a self-clearing member.]

**Chapters IV, V and VI applicable.**

**16-I.** (1) The provisions of Chapters IV, V and VI shall be applicable mutatis mutandis to a trading member and a clearing member <sup>44</sup>[or self-clearing member] and such members shall abide by the provisions of the said Chapters.

(2) In the chapters referred to in sub-regulation (1), the words 'stock broker' shall refer to trading member or clearing member <sup>45</sup>[or self-clearing member] and the words 'stock exchange' shall refer to derivatives exchange or derivatives segment of an exchange or clearing corporation or clearing house.

(3) The Board may issue such directions under section 11B of the Act to the trading member or clearing member <sup>46</sup>[or self-clearing member] as may be deemed appropriate and such member shall abide by such directions.

(4) In case of violation of any regulation, the trading or the clearing member <sup>47</sup>[or self-clearing member] shall be liable to penalty as specified in <sup>48</sup>[Chapter VI].]

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<sup>42</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

<sup>43</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

<sup>44</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

<sup>45</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

<sup>46</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

<sup>47</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

<sup>48</sup> Substituted for "regulation 26" by the SEBI (Stock Broker and Sub-brokers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008

<sup>49</sup>[CHAPTER III B

**REGISTRATION OF TRADING AND CLEARING MEMBERS OF  
CURRENCY DERIVATIVES SEGMENT**

**Application for registration of trading member or clearing member.**

**16J.** (1) An application for grant of certificate of registration by a trading member of currency derivatives segment of a stock exchange shall be made in Form AB of Schedule I, through the concerned currency derivatives segment of a stock exchange of which he is a member.

(2) An application for grant of certificate of registration by a clearing member of the clearing corporation or clearing house of currency derivatives segment of a stock exchange, shall be made in Form AB of Schedule I, through the concerned clearing corporation or clearing house of which he is a member:

Provided that a trading member who also seeks to act as a clearing member shall make separate applications for each activity in Form AB of Schedule I.

(3) The currency derivatives segment or clearing house or corporation, as the case may be, shall forward the application to the Board as early as possible but not later than thirty days from the date of its receipt.

**Furnishing of information, clarification, etc.**

**16K.** (1) The Board may require the applicant or the concerned stock exchange or segment or clearing house or corporation to furnish such other information or clarifications, regarding the trading and settlement in currency derivatives and matters connected thereto, to consider the application for grant of a certificate.

(2) The applicant or its principal officer shall, if so required, appear before the Board for personal representation.

**Consideration of application.**

**16L.** (1) The Board shall take into account for considering the grant of a certificate all matters relating to dealing and settlement in currency derivatives and in particular the following, namely, whether the applicant—

(a) is eligible to be admitted as a trading member of currency derivatives segment of a stock exchange and/or a clearing member of currency derivatives segment of a stock exchange or a clearing corporation or a clearing house;

(b) has the necessary infrastructure like adequate office place, equipment and manpower to effectively undertake his activities;

(c) is subjected to disciplinary proceedings under the rules, regulations and bye-laws of any stock exchange with respect to his business as a stock broker or member of currency derivatives segment or member of clearing house or corporation involving either himself or any of his partners, directors or employees;

(d) has any financial liability which is due and payable to the Board under these regulations.

(2) An applicant who desires to act as a trading member, in addition to complying with the requirements of sub-regulation (1), shall have a networth of Rs. 1 Crore and shall ensure that its approved user and sales personnel have passed a certification programme approved by the Board:

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<sup>49</sup> Inserted by the SEBI (Stock Broker and Sub-brokers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008



Provided that the Board may grant exemption to a trading member from the requirement of certification as provided under sub-regulation (2) for a period extending upto one year <sup>50</sup>[and six months] from the date of commencement of the Securities and Exchange Board of India (Stock Brokers and Sub- Brokers) (Amendment) Regulations, 2008.

(3) An applicant who desires to act as a clearing member, in addition to complying with the requirements of sub-regulation (1), shall have a minimum net worth of Rs. 10 crore and shall deposit at least a sum of Rs.50 lacs or higher amount with the clearing corporation or clearing house of the currency derivatives segment in the form specified from time to time.

*Explanation* : For the purpose of sub-regulations (2) and (3) the expression 'net worth' shall mean paid up capital and free reserves and other securities approved by the Board from time to time (but does not include fixed assets, pledged securities, value of member's card, non-allowable securities (unlisted securities), bad deliveries, doubtful debts and advances (debts or advances overdue for more than three months or debts or 3 advances given to the associate persons of the member), prepaid expenses, losses, intangible assets and 30% value of marketable securities).

**Procedure for registration.**

**16M.** The Board on being satisfied that the applicant is eligible, shall grant a certificate in Form DB of Schedule I, to the applicant and send intimation to that effect to the currency derivatives segment of the stock exchange or clearing corporation or clearing house, as the case may be.

**Procedure where registration is not granted.**

**16N.** (1) Where an application for the grant of a certificate under regulation 16J does not fulfill the requirements specified in regulation 16L of the Regulations, the Board may reject the application of the applicant after giving a reasonable opportunity of being heard. (2) The refusal to grant the certificate of registration shall be communicated by the Board within 30 days of such refusal to the currency derivatives segment of the stock exchange, or clearing house or corporation and to the applicant stating therein the grounds on which the application has been rejected.

(3) An applicant may, if aggrieved by the decision of the Board under subregulation (2) apply within a period of thirty days from the date of receipt of such information to the Board for reconsideration of its decision.

(4) The Board shall reconsider an application made under sub-regulation (3) and communicate its decision as soon as possible in writing to the applicant and to the currency derivatives segment of the stock exchange or clearing house or corporation.

**Effect of refusal of certificate of registration.**

**16O.** An applicant, whose application for the grant of a certificate of registration has been refused by the Board, shall not, on and from the date of receipt of the communication under sub-regulation (2) or sub-regulation (4) of regulation 16N, deal in or settle the currency derivatives contracts as a member of the currency derivatives segment of the stock exchange or clearing corporation or clearing house.

**Payment of fees and consequences of failure to pay fees.**

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<sup>50</sup> Inserted by the SEBI (Stock Broker and Sub-Brokers) (Amendment) Regulations, 2009 w.e.f. 19-11-2009.

**16P.** (1) Every applicant eligible for grant of a certificate as a trading or clearing member shall pay such fee and in such manner as specified in Schedule IVA.

(2) Where a trading or clearing member fails to pay the fees as provided in sub-regulation (1), the Board may suspend or cancel the registration certificate after giving an opportunity of being heard, whereupon the trading and clearing member shall cease to deal in or settle the currency derivatives contract as a member of currency derivatives segment of stock exchange or clearing corporation or clearing house.

<sup>51</sup>[(3) A trading or clearing member of any other derivatives segment, who has been allowed to trade or clear in the currency derivatives segment, shall be liable for fees as provided in sub-regulation (1).]

**Trading member/clearing member to abide by the code of conduct, etc.**

**16Q.** (1) The code of conduct specified for the stock brokers as stipulated in Schedule II, shall be applicable *mutatis mutandis* to the trading member, clearing member and such members shall at all times abide by the same.

(2) The trading member and clearing member shall abide by the code of conduct as specified in the rules, bye-laws and regulations of currency derivatives segment of the stock exchange.

(3) The trading members shall obtain details of the prospective clients in 'know your client' format as specified by the Board before executing an order on behalf of such client.

(4) The trading member shall mandatorily furnish 'risk disclosure document' disclosing the risk inherent in trading in currency derivatives to the prospective clients in the form specified by currency derivatives segment of the stock exchange.

(5) The trading or clearing member shall deposit margin or any other deposit and shall maintain position or exposure limit as specified by the Board or the concerned exchange or segment or clearing corporation or clearing house from time to time.

**Applicability of Chapters IV, V and VI.**

**16R.** (1) The provisions of Chapters IV, V and VI shall be applicable *mutatis mutandis* to a trading member and a clearing member and such members shall abide by the provisions of the said Chapters.

(2) In the chapters referred to in sub-regulation (1), the words 'stock broker' shall refer to trading member or clearing member and the words 'stock exchange' shall refer to currency derivatives segment of a stock exchange or clearing corporation or clearing house.

(3) The Board may issue such directions under section 11B of the Act to the trading member or clearing member as may be deemed appropriate and such member shall abide by such directions.

(4) In case of violation of any regulation, the trading or the clearing member shall be liable to penalty as specified in Chapter VI]

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51 Inserted by the SEBI (Stock Broker and Sub-Brokers) (Amendment) Regulations, 2009 w.e.f. 19-11-2009

**CHAPTER IV**  
**GENERAL OBLIGATIONS AND RESPONSIBILITIES**

**To maintain proper books of account, records, etc.**

**17.** (1) Every Stock Broker shall keep and maintain the following books of account, records and documents, namely :—

- (a) Register of transactions (Sauda Book);
- (b) Clients ledger;
- (c) General ledger;
- (d) Journals;
- (e) Cash book;
- (f) Bank pass book;
- <sup>52</sup>[(g) Documents register containing, inter alia, particulars of securities received and delivered in physical form and the statement of account and other records relating to receipt and delivery of securities provided by the depository participants in respect of dematerialized securities;]
- (h) Member's contract books showing details of all contracts entered into by him with other members of the same exchange or counterfoils or duplicates of memos of confirmation issued to such other members;
- (i) Counterfoils or duplicates of contract notes issued to clients;
- (j) Written consent of clients in respect of contracts entered into as principals;
- (k) Margin deposit book;
- (l) Registers of accounts of sub-brokers;
- (m) An agreement with a sub-broker specifying the scope of authority, and responsibilities of the Stock Broker and such Sub-broker;
- <sup>53</sup>[(n) An agreement with the sub-broker and with the client of the sub-broker to establish privity of contract between the stock broker and the client of the sub-broker.]

(2) Every stock broker shall intimate to the Board the place where the books of account, records and documents are maintained.

(3) Without prejudice to sub-regulation (1), every stock broker shall, after the close of each accounting period furnish to the Board if so required as soon as possible but not later than six months from the close of the said period a copy of the audited balance sheet and profit and loss account as at the end of the said accounting period :

Provided that, if it is not possible to furnish the above documents within the time specified, the Stock Broker shall keep the Board informed of the same together with the reasons for the delay and the period of time by which such documents would be furnished.

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<sup>52</sup> Substituted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003. Prior to substitution it was read as under, "Documents register should include particulars of shares and securities received and delivered"

<sup>53</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

### **Maintenance of books of account and records.**

**18.** Every stock broker shall preserve the books of account and other records maintained under regulation 17 for a minimum period of five years.

#### <sup>54</sup>**[Appointment of compliance officer.**

**18A.** (1) Every stock broker shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by the Board or the Central Government and for redressal of investors' grievances.

(2) The compliance officer shall immediately and independently report to the Board any non-compliance observed by him.]

#### <sup>55</sup>**[Stock Broker not to deal with unregistered Sub-broker.**

**18B.** The stock broker shall not deal with any person as a sub-broker unless such person has been granted certificate of registration by the Board under sub-regulation (1) of Regulation 12.]

## **CHAPTER V**

### **PROCEDURE FOR INSPECTION**

#### **Board's right to inspect.**

**19.** (1) Where it appears to the Board so to do, it may appoint one or more persons as inspecting authority to undertake inspection of the books of account, other records and documents of the stock brokers for any of the purposes specified in sub-regulation (2).

(2) The purposes referred to in sub-regulation (1) shall be as follows, namely :—

- (a) to ensure that the books of account and other books are being maintained in the manner required;
- (b) that the provisions of the Act, rules, regulations and the provisions of the Securities Contracts (Regulation) Act, and the rules made thereunder are being complied with;
- (c) to investigate into the complaints received from investors, other stock brokers, sub-brokers or any other person on any matter having a bearing on the activities of the stock brokers; and
- (d) to investigate suo motu, in the interest of securities business or investors' interest, into the affairs of the stock-broker.

#### **Procedure for inspection.**

**20.** (1) Before undertaking any inspection under regulation 19, the Board shall give a reasonable notice to the stock broker for that purpose.

(2) Notwithstanding anything contained in sub-regulation (1), where the Board is satisfied that in the interest of the investors or in public interest no such notice

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<sup>54</sup> Inserted by the SEBI (Investment Advice by Intermediaries) (Amendment) Regulations, 2001, w.e.f. 29-5-2001.

<sup>55</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

should be given, it may by an order in writing direct that the inspection of the affairs of the stock broker be taken up without such notice.

(3) On being empowered by the Board, the inspecting authority shall undertake the inspection and the stock-broker against whom an inspection is being carried out shall be bound to discharge his obligations as provided under regulation 21.

**Obligations of stock-broker on inspection by the Board.**

**21.** (1) It shall be the duty of every director, proprietor, partner, officer and employee of the stock-broker, who is being inspected, to produce to the inspecting authority such books, accounts and other documents in his custody or control and furnish him with the statements and information relating to the transactions in securities market within such time as the said officer may require.

(2) The stock-broker shall allow the inspecting authority to have reasonable access to the premises occupied by such stock-broker or by any other person on his behalf and also extend reasonable facility for examining any books, records, documents and computer data in the possession of the stock-broker or any other person and also provide copies of documents or other materials which, in the opinion of the inspecting authority are relevant.

(3) The inspecting authority, in the course of inspection, shall be entitled to examine or record statements of any member, director, partner, proprietor and employee of the stock-broker.

(4) It shall be the duty of every director, proprietor, partner, officer and employee of the stock broker to give to the inspecting authority all assistance in connection with the inspection, which the stock broker may reasonably be expected to give.

**Submission of report to the Board.**

**22.** The inspecting authority shall, as soon as may be possible, submit an inspection report to the Board.

**Action on inspection or investigation report.**

**23.** <sup>56</sup>[The Board shall after consideration of inspection or investigation report take such action as it may deem fit and appropriate including action under <sup>57</sup>[ Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008], Chapter VIA of the Act or section 24 of the Act.]

**Appointment of auditor.**

**24.** Notwithstanding anything contained above, the Board may appoint a qualified auditor to investigate into the books of account or the affairs of the stock-broker:

**Provided** that, the auditor so appointed shall have the same powers of the inspecting authority as mentioned in regulation 19 and the obligations of the stock-broker in regulation 21 shall be applicable to the investigation under this regulation.

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<sup>56</sup> Substituted by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2003, w.e.f. 20-11-2003. Earlier it was substituted by the SEBI(Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002. w.e.f 27-09-2002.

<sup>57</sup> Substituted by the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, w.e.f. 26-05-2008.

**CHAPTER VI**  
**PROCEDURE FOR ACTION IN CASE OF DEFAULT**

<sup>58</sup>**[Liability for contravention of the Act, rules or the regulations.**

**25.** A stock broker or a sub-broker who contravenes any of the provisions of the Act, rules or regulations framed thereunder shall be liable for any one or more of the following actions—

- (i) Monetary penalty under Chapter VIA of the Act.
- (ii) Penalties as specified under <sup>59</sup>[Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008] including suspension or cancellation of certificate of registration as a stock broker or a sub-broker,
- (iii) Prosecution under section 24 of the Act.

**Liability for monetary penalty.**

**26.** A stock broker or a sub-broker shall be liable for monetary penalty in respect of the following violations, namely—

- (i) Failure to file any return or report with the Board.
- (ii) Failure to furnish any information, books or other documents within 15 days of issue of notice by the Board.
- (iii) Failure to maintain books of account or records as per the Act, rules or regulations framed thereunder.
- (iv) Failure to redress the grievances of investors within 30 days of receipts of notice from the Board.
- (v) Failure to issue contract notes in the form and manner specified by the Stock Exchange of which such broker is a member.
- (vi) Failure to deliver any security or make payment of the amount due to the investor within 48 hours of the settlement of trade unless the client has agreed in writing otherwise.
- (vii) Charging of brokerage which is in excess of brokerage specified in the regulations or the bye-laws of the stock exchange.
- (viii) Dealing in securities of a body corporate listed on any stock exchange on his own behalf or on behalf of any other person on the basis of any unpublished price sensitive information.
- (ix) Procuring or communicating any unpublished price sensitive information except as required in the ordinary course of business or under any law.
- (x) Counselling any person to deal in securities of any body corporate on the basis of unpublished price sensitive information.
- (xi) Indulging in fraudulent and unfair trade practices relating to securities.
- (xii) Execution of trade without entering into agreement with the client under the Act, rules or regulations framed thereunder or failure to maintain client registration form or commission of any irregularities in maintaining the client agreement.

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<sup>58</sup> Regulations 25 to 28 substituted for regulation 25 by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 20-11-2003.

<sup>59</sup> Substituted by the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, w.e.f. 26-05-2008.

- (xiii) Failure to segregate his own funds or securities from the client's funds or securities or using the securities or funds of the client for his own purpose or for purpose of any other client.
- (xiv) Acting as an unregistered sub-broker or dealing with unregistered sub-brokers.
- (xv) Failure to comply with directions issued by the Board under the Act or the regulations framed thereunder.
- (xvi) Failure to exercise due skill, care and diligence.
- (xvii) Failure to seek prior permission of the Board in case of any change in its status and constitution.
- (xviii) Failure to satisfy the net worth or capital adequacy norms, if any, specified by the Board.
- (xix) Extending use of trading terminal to any unauthorized person or place.
- (xx) Violations for which no separate penalty has been provided under these regulations.

**Liability for action under the Enquiry Proceeding Regulations.**

**27.** A stock broker or a sub-broker shall be liable for any action as specified in <sup>60</sup>[Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008] including suspension or cancellation of his certificate of registration as a stock broker or a sub-broker, as the case may be, if he—

- (i) ceases to be a member of a stock exchange; or
- (ii) has been declared defaulter by a stock exchange and not re-admitted as a member within a period of six months; or
- (iii) surrenders his certificate of registration to the Board; or
- (iv) has been found to be not a fit and proper person by the Board under these or any other regulations; or
- (v) has been declared insolvent or order for winding up has been passed in the case of a broker or sub-broker being a company registered under the Companies Act, 1956; or
- (vi) or any of the partners or any whole-time director in case a broker or sub-broker is a company registered under the Companies Act, 1956 has been convicted by a court of competent jurisdiction for an offence involving moral turpitude; or
- (vii) fails to pay fee as per Schedule III of these regulations; or
- (viii) fails to comply with the rules, regulations and bye-laws of the stock exchange of which he is a member; or
- (ix) fails to co-operate with the inspecting or investigating authority; or
- (x) fails to abide by any award of the Ombudsman or decision of the Board under the Securities and Exchange Board of India (Ombudsman) Regulations, 2003; or
- (xi) fails to pay the penalty imposed by the Adjudicating Officer; or
- (xii) indulges in market manipulation of securities or index; or
- (xiii) indulges in insider trading in violation of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992; or

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<sup>60</sup> Substituted by the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, w.e.f. 26-05-2008.

- (xiv) violates Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003; or
- (xv) commits violation of any of the provisions for which monetary penalty or other penalties could be imposed; or
- (xvi) fails to comply with the circulars issued by the Board; or
- (xvii) commits violations specified in regulation 26 which in the opinion of the Board are of a grievous nature.

**Liability for prosecution.**

**28.** A stock broker or a sub-broker shall be liable for prosecution under section 24 of the Act for any of the following violations, namely :—

- (i) Dealing in securities without obtaining certificate of registration from the Board as a stock broker or a sub-broker.
- (ii) Dealing in securities or providing trading floor or assisting in trading outside the recognized stock exchange in violation of provisions of the Securities Contracts (Regulation) Act, 1956 or rules made or notifications issued thereunder.
- (iii) Market manipulation of securities or index.
- (iv) Indulging in insider trading in violation of Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992.
- (v) Violating the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.
- (vi) Failure without reasonable cause—
  - (a) to produce to the investigating authority or any person authorized by him in this behalf, any books, registers, records or other documents which are in his custody or power; or
  - (b) to appear before the investigating authority personally or to answer any question which is put to him by the investigating authority; or
  - (c) to sign the notes of any examination taken down by the investigating authority.
- (vii) Failure to pay penalty imposed by the adjudicating officer or failure to comply with any of his directions or orders.]

<sup>61</sup>[\*\*\*]

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<sup>61</sup> Regulations 26 to 32 had been omitted by the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002 w.e.f. 27-9-2002.



**SCHEDULE I**

**FORMS**

**FORM A**

Securities and Exchange Board of India (Stock Brokers and Sub-brokers)  
Regulations, 1992

[Regulation 3]

**Application Form for Registration as Stock Brokers with Securities and  
Exchange Board of India**

Name of the Stock Exchange :

1. Name of Member with Code No.
2. Address of Member
3. Trade name of Member
4. Form of Organisation—Sole proprietorship, partnership, corporate body, financial institution. Please give names of proprietor/partners/directors.
5. Educational Qualifications.
6. Date of admission to membership.
7. Whether member of more than one Stock Exchange? If so, please give name(s) of the Stock Exchange(s) with Code Number(s).
8. Indicate Fax, Telex and Phone Number(s) of office and residence.
9. In the case of members admitted on any Stock Exchange after February 21, 1992, the copy of the information given to the Stock Exchange at the time of admission.

I declare that the information given in this form is true to the best of my knowledge and belief.

.....  
Dated.....

Signature

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Recommendation of the Stock Exchange

This is to certify that.....is a member of this Exchange and is recommended for registration with the Securities and Exchange Board of India.

Signature

Name Designation

## <sup>62</sup>FORM AA

Securities and Exchange Board of India (Stock Brokers and Sub-brokers)  
Regulations, 1992

[Regulation 16A]

### **Application form for registration as a trading and/or a clearing member <sup>63</sup>[and/or a self-clearing member] with the Securities and Exchange Board of India**

1. Name of the derivatives exchange/segment/clearing corporation/clearing house of which the applicant is the member. Please furnish the tenure of membership.
2. Name of the member with code No.
3. Whether the applicant is to act as a trading member and/or a clearing member <sup>64</sup>[and/or a self-clearing member].
4. If the applicant is to act as a trading member, the applicant is required to furnish the name and details of the clearing member <sup>65</sup>[or self-clearing member] through whom he intends to clear and settle his trade.
5. Address of the member.
6. Trade name of member.
7. Form of organisation : sole proprietorship/partnership/corporate body/financial institution. (Please give names of proprietor/partners/directors).
8. Please furnish a copy of the memorandum and articles of association or the partnership deed, as the case may be.
9. Educational qualifications of proprietor/partners/directors, etc.
10. Whether the applicant or its sales personnel or approved user has passed any certification programme ? If so, please specify the detail.
11. The experience of the applicant or their two directors or partners in derivatives trading or securities market, if so, please give details.
12. Date of admission to membership to the derivatives exchange or derivatives segment/clearing corporation/clearing house.
13. Whether a member of more than one exchange or derivatives segment or clearing corporation or clearing house of any segment? If so, please give name(s) of the clearing corporation/clearing house, or any stock exchange(s) with code number(s) ?
14. Net worth of the applicant. Please furnish details along with necessary documents in support thereof.
15. Whether the applicant or its director or partners, any time convicted of any economic offence? If so, please furnish the details?

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<sup>62</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2000, w.e.f. 14-3-2000.

<sup>63</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

<sup>64</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

<sup>65</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

16. Whether the applicant or its directors or partners, declared insolvent/bankrupt or declared defaulter by any exchange? If so, please furnish details.
17. Whether the applicant or its directors or partners at any time subjected to any proceedings or penalty by the Board under SEBI Act or any of the regulations framed under the SEBI Act? If so, please furnish the details.
18. Indicate fax, telex and phone number(s).
19. Whether the application is accompanied by a requisite fee as per Schedule IV of the Regulations as applicable to the applicant.

I declare that the information given in this form is true and in the event of any information furnished is false, misleading or suppression of facts, my certificate of registration is liable to be cancelled by SEBI without assigning any reasons whatsoever.

.....  
 Dated..... Signature

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Recommendation of the derivatives exchange/derivatives segment, clearing corporation/house.

This is to certify that.....is a member of this Derivatives Exchange/Derivatives Segment or Clearing Corporation or Clearing House and is recommended for registration with the Securities and Exchange Board of India.

Signature  
 Name  
 Designation

<sup>66</sup>**[FORM AB**  
*Securities and Exchange Board of India (Stock Brokers and Subbrokers)*  
*Regulations, 1992*  
[Regulation 16J]

**Application form for registration as a trading and/or a clearing member of currency derivatives segment of a stock exchange with the Securities and Exchange Board of India**

1. Name of the currency derivatives segment of a stock exchange/clearing corporation/clearing house of which the applicant is the member. Please furnish the tenure of membership.
2. Name of the member with code No.
3. Whether the applicant is to act as a trading member and/or a clearing member.
4. If the applicant is to act as a trading member, the applicant is required to furnish the name and details of the clearing member through whom he intends to clear and settle his trade.
5. Address of the member.
6. Trade name of member.
7. Form of organisation: sole proprietorship/partnership/corporate body/ financial institution. (Please give names of proprietor/ partners/directors).
8. Please furnish a copy of the memorandum and articles of association or the partnership deed, as the case may be.
9. Educational qualifications of proprietor/partners/directors, etc.
10. Whether the applicant or its sales personnel or approved user has passed any certification programme? If so, please specify the detail.
11. The experience of the applicant or their two directors or partners in currency derivatives trading or securities market, if so, please give details.
12. Date of admission to membership to currency derivatives segment of a stock exchange/clearing corporation/clearing house.
13. Whether a member of more than one exchange or currency derivatives segment of a stock exchange or clearing corporation or clearing house of any segment? If so, please give name(s) of the clearing corporation/clearing house, or any stock exchange(s) with code number(s)?
14. Net worth of the applicant. Please furnish details along with necessary documents in support thereof.
15. Whether the applicant or its director or partners, any time convicted of any economic offence? If so, please furnish the details?
16. Whether the applicant or its directors or partners, declared insolvent/bankrupt or declared defaulter by any exchange? If so, please furnish details.
17. Whether the applicant or its directors or partners at any time subjected to any proceedings or penalty by the Board under the SEBI Act or any of the regulations framed under the SEBI Act? If so, please furnish the details.
18. Indicate fax, telex and phone number(s).
19. Whether the application is accompanied by a requisite fee as per Schedule IVA of the Regulations as applicable to the applicant.

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<sup>66</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008.

I declare that the information given in this form is true and in the event of any information furnished is false, misleading or suppression of facts, my certificate of registration is liable to be cancelled by SEBI without assigning any reasons whatsoever.

.....  
Dated.....

Signature

*Recommendation of the currency derivatives segment of a stock exchange, clearing corporation/house.*

This is to certify that.....is a member of this currency derivatives segment or Clearing Corporation or Clearing House and is recommended for registration with the Securities and Exchange Board of India.

Signature  
Name  
Designation]

### **FORM B**

Securities and Exchange Board of India (Stock Brokers and Sub-brokers)  
Regulations, 1992  
[Regulation 11]

#### **Application Form for Registration as a Sub-broker with Securities and Exchange Board of India**

1. Name of applicant sub-broker :
2. Trade name of sub-broker, firm, corporate body.
3. Form of organisation—sole proprietorship, partnership, corporate body. Please give names of proprietor, all partners, directors etc.
4. Educational qualifications of proprietor, partners, directors, etc.

Name

Status

Qualifications

5. Name of the member-broker and Stock Exchange to which applicant is affiliated.
6. Date of acquiring sub-brokership
7. Infrastructural arrangements—indicate fax, telex, phone number of offices and residential numbers. Also indicate the number of employees.

Office Address

Phone No.

Telex No.

Fax No.

Residential Phone Nos. of proprietor, partners, directors, etc.

8. Number of branch offices and their location with phone, telex and fax numbers.

I certify that the information given in this application form is true to the best of my/our knowledge and belief.

Recommendation letter from the stock broker to whom I/we am/are affiliated and two references, including one from the banker as required are enclosed.

Date.....

.....  
Signature

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Recommendation of the Stock Exchange

This is to certify that.....is a <sup>67</sup>[recognised] sub-broker affiliated to.....member broker of this Exchange.

The application is recommended/not recommended for registration by the Board.

Authorised Signatory Signature

..... Stock Exchange

**FORM C**

Securities and Exchange Board of India (Stock Brokers & Sub-brokers) Regulations,  
1992

**Recommendation Letter to be given by the Member with whom the Sub-broker  
is Affiliated**

To

The.....Stock Exchange

Dear Sirs,

I/We understand that.....son of.....aged.....years, residing at.....and attached to me at.....for carrying on the shares and securities business as a sub-broker. I/We confirm that.....is transacting business through me for a period from.....and he is a fit and proper person to be registered as a sub-broker.

I/We also confirm that he is known to me/us for well over.....years and he has got good financial background, moral character and integrity. He has been transacting business frequently and was meeting the market commitments as and when they arise.

I/We hereby recommend his application for granting registration for carrying on shares and securities business as sub-broker. I/We also wish to state that whatever the information that has been submitted is true to the best of my/our knowledge and if at a later date any material information comes to my/our knowledge subsequent to the submission of this application I/we undertake to keep informed about the same.

I/We member/s of.....Exchange hereby agree to recommend the above mentioned applicant.

Yours faithfully, Signature of Member/s

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67 Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

**<sup>68</sup>[FORM CA]**

Securities and Exchange Board of India (Stock Brokers and Sub-brokers)  
Regulations, 1992

**Recognition letter to be issued by the Stock Exchange**

To,  
The Securities and Exchange Board of India,

.....  
.....

Mumbai.

Dear Sir,

This is to certify that ..... has been recognized as a sub-broker by this Exchange being a sub-broker affiliated to member broker .....of this Exchange.

Place :

Authorized Signatory

Date :

For and on behalf of .....Exchange.

**FORM D**

Securities and Exchange Board of India (Stock Brokers and Sub-brokers)  
Regulations, 1992

[Regulation 6]

**Certificate of Registration**

In exercise of the powers conferred by sub-section (1) of section 12 of the Securities and Exchange Board of India Act, 1992, read with the rules and regulations made thereunder, the Board hereby grants a certificate of registration to.....a member of the.....Stock Exchange(s) as a Stock Broker for carrying on the activities of buying, selling or dealing in securities and carrying on such other activities as are permitted by such Stock Exchange(s) subject to conditions prescribed in the rules and in accordance with the regulations.

Registration number allotted is as under :

.....

This certificate shall be valid till it is suspended or cancelled in accordance with the regulations.

Date.....

By Order

For and on behalf of Securities and Exchange Board of India

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<sup>68</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

<sup>69</sup>**[FORM DA]**

Securities and Exchange Board of India (Stock Brokers and Sub-brokers)  
Regulations, 1992  
[Regulation 16D]

**Certificate of Registration**

In exercise of the powers conferred by sub-section (1) of section 12 of the Securities and Exchange Board of India Act, 1992, read with the rules and regulations made thereunder, the Board hereby grants a certificate of registration to ..... a member of the .....derivatives exchange/derivatives segment/clearing corporation/clearing house as trading/clearing member <sup>70</sup>[or self-clearing member] for carrying on the activities of dealing in derivatives/clearing and settlement of derivatives trades and for carrying on such other activities as are permitted by such exchange(s)/segment(s)/clearing corporation/clearing house subject to the conditions prescribed therefor, from time to time, by the Board.

Registration number allotted is as under :

.....

This certificate shall be valid till it is suspended or cancelled in accordance with the Regulations.

Date : .....

By order

For and on behalf of

Securities and Exchange Board of India.

<sup>71</sup>**[FORM DB]**

**Securities and Exchange Board of India (Stock Brokers and Sub-brokers)  
Regulations, 1992  
[Regulation 16M]**

**Certificate of Registration**

In exercise of the powers conferred by sub-section (1) of section 12 of the Securities and Exchange Board of India Act, 1992, read with the rules and regulations made thereunder, the Board hereby grants a certificate of registration to ..... a member of the.....currency derivatives segment/clearing corporation/ clearing house as trading /clearing member for carrying on the activities of dealing in currency derivatives /clearing and settlement of currency derivatives trades and for carrying on such other activities as are permitted by such exchange(s)/segment(s)/clearing corporation/clearing house subject to the conditions prescribed therefor, from time to time, by the Board.

Registration number allotted is as under:

.....

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<sup>69</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2000, w.e.f. 14-3-2000.

<sup>70</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001 w.e.f. 15-11-2001

<sup>71</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008



This certificate shall be valid till it is suspended or cancelled in accordance with the Regulations.

Date :.....

By order  
For and on behalf of  
Securities and Exchange Board of  
India.]

### **FORM E**

Securities and Exchange Board of India (Stock Brokers and Sub-brokers)  
Regulations, 1992  
[Regulation 12]

#### **Certificate of Registration**

In exercise of the powers conferred by sub-section (1) of section 12 of the Securities and Exchange Board of India Act, 1992, read with the rules and regulations made thereunder, the Board hereby grants a certificate of registration to.....as a Sub-broker subject to the rules and in accordance with the regulations.

Registration number allotted is as under :

.....  
.....

This certificate shall be valid till it is suspended or cancelled in accordance with the regulations.

Date:.....

By Order  
For and on behalf of Securities and Exchange Board of India

### **SCHEDULE II**

Securities and Exchange Board of India (Stock Brokers and Sub-brokers)  
Regulations, 1992

#### **CODE OF CONDUCT FOR STOCK BROKERS**

[Regulation 7]

##### **A. General.**

(1) Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.

(2) Exercise of due skill and care : A stock-broker shall act with due skill, care and diligence in the conduct of all his business.

(3) Manipulation : A stock-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

(4) Malpractices: A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stock-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

(5) Compliance with statutory requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the Stock Exchange from time to time as may be applicable to him.

#### **B. Duty to the Investor.**

(1) Execution of Orders: A stock-broker, in his dealings with the clients and the general investing public, shall faithfully execute the orders for buying and selling of securities at the best available market price and not refuse to deal with a Small Investor merely on the ground of the volume of business involved. A stock-broker shall promptly inform his client about the execution or non-execution of an order, and make prompt payment in respect of securities sold and arrange for prompt delivery of securities purchased by clients.

(2) Issue of Contract Note : A stock-broker shall issue without delay to his client <sup>72</sup>[or client of the sub-broker, as the case may be] a contract note for all transactions in the form specified by the stock exchange.

(3) Breach of Trust: A stock-broker shall not disclose or discuss with any other person or make improper use of the details of personal investments and other information of a confidential nature of the client which he comes to know in his business relationship.

(4) Business and Commission :

(a) A stock-broker shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission.

(b) A stock-broker shall not furnish false or misleading quotations or give any other false or misleading advice or information to the clients with a view of inducing him to do business in particular securities and enabling himself to earn brokerage or commission thereby.

(5) Business of Defaulting Clients : A stock-broker shall not deal or transact business knowingly, directly or indirectly or execute an order for a client who has failed to carry out his commitments in relation to securities with another stock-broker.

(6) Fairness to Clients: A stock-broker, when dealing with a client, shall disclose whether he is acting as a principal or as an agent and shall ensure at the same time, that no conflict of interest arises between him and the client. In the event of a conflict of interest, he shall inform the client accordingly and shall not seek to gain a direct or indirect personal advantage from the situation and shall not consider clients' interest inferior to his own.

(7) Investment Advice: A stock-broker shall not make a recommendation to any client who might be expected to rely thereon to acquire, dispose of, retain any securities unless he has reasonable grounds for believing that the recommendation is suitable for such a client upon the basis of the facts, if disclosed by such a client

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<sup>72</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2000, w.e.f. 23-9-2003.

as to his own security holdings, financial situation and objectives of such investment. The stock-broker should seek such information from clients, whenever he feels it is appropriate to do so.

<sup>73</sup>[(7A) Investment advice in publicly accessible media—

- (a) A stock broker or any of his employees shall not render, directly or indirectly, any investment advice about any security in the publicly accessible media, whether real-time or non-real-time, unless a disclosure of his interest including the interest of his dependent family members and the employer including their long or short position in the said security has been made, while rendering such advice.
- (b) In case an employee of the stock broker is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such advice.]

(8) Competence of Stock-Broker: A stock-broker should have adequately trained staff and arrangements to render fair, prompt and competence services to his clients.

### **C. Stock-Brokers vis-a-vis Other Stock-Brokers.**

(1) Conduct of Dealings: A stock-broker shall co-operate with the other contracting party in comparing unmatched transactions. A stock-broker shall not knowingly and wilfully deliver documents which constitute bad delivery and shall co-operate with other contracting party for prompt replacement of documents which are declared as bad delivery.

(2) Protection of Clients Interests: A stock-broker shall extend fullest co-operation to other stock-brokers in protecting the interests of his clients regarding their rights to dividends, bonus shares, right shares and any other right related to such securities.

(3) Transactions with Stock-Brokers: A stock-broker shall carry out his transactions with other stock-brokers and shall comply with his obligations in completing the settlement of transactions with them.

(4) Advertisement and Publicity: A stock-broker shall not advertise his business publicly unless permitted by the stock exchange.

(5) Inducement of Clients: A stock-broker shall not resort to unfair means of inducing clients from other stock-brokers.

(6) False or Misleading Returns: A stock-broker shall not neglect or fail or refuse to submit the required returns and not make any false or misleading statement on any returns required to be submitted to the Board and the stock exchange.

<sup>74</sup>[D. (1) A stock broker, shall enter into an agreement as specified by the Board with his client.

(2) A stock broker shall also enter into an agreement as specified by the Board with the client of the sub-broker.]

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<sup>73</sup> Inserted by the SEBI (Investment Advice by Intermediaries ) (Amendment) Regulations, 2001, w.e.f. 29-05-2001.

<sup>74</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

Securities and Exchange Board of India (Stock Brokers and Sub-brokers)  
Regulations, 1992

**CODE OF CONDUCT FOR SUB-BROKERS**

[Regulation 15]

**A. General.**

(1) Integrity: A sub-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all investment business.

(2) Exercise of due Skill and Care : A sub-broker, shall act with due skill, care and diligence in the conduct of all investment business.

**B. Duty to the Investor.**

(1) Execution of Orders: A sub-broker, in his dealings with the clients and the general investing public, shall faithfully execute the orders for buying and selling of securities at the best available market price. A sub-broker shall promptly inform his client about the execution or non-execution of an order <sup>75</sup>[\*\*\*].

<sup>76</sup>[(2) A sub-broker shall render necessary assistance to his client in obtaining the contract note from the stock-broker.]

(3) Breach of Trust : A sub-broker shall not disclose or discuss with any other person or make improper use of the details of personal investments and other information of a confidential nature of the client which he comes to know in his business relationship.

(4) Business and Commission :

(a) A sub-broker shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission.

(b) A sub-broker shall not furnish false or misleading quotations or give any other false or misleading advice or information to the clients with a view of inducing him to do business in particular securities and enabling himself to earn brokerage or commission thereby.

(c) A sub-broker shall not charge from his clients a commission exceeding one and one-half of one per cent of the value mentioned in the respective sale or purchase notes.

(5) Business of Defaulting Clients: A sub-broker shall not deal or transact business knowingly, directly or indirectly or execute an order for a client who has failed to carry out his commitments in relation to securities and is in default with another broker or sub-broker.

(6) Fairness to Clients: A sub-broker, when dealing with a client, shall disclose that he is acting as an agent <sup>77</sup>[\*\*\*] ensuring at the same time, that no conflict of interest arises between him and the client. In the event of a conflict of interest, he shall inform the client accordingly and shall not seek to gain a direct or indirect personal

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<sup>75</sup> Words ‘and make payment in respect of securities sold and arrange for prompt delivery of securities purchased by clients’ omitted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

<sup>76</sup> Substituted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

<sup>77</sup> Words, ‘and shall issue appropriate purchase / sale note’ omitted by the SEBI (Stock Brokers and Sub-brokers)(Amendment) Regulations, 2003, w.e.f. 23-9-2003.

advantage from the situation and shall not consider clients' interest inferior to his own.

(7) Investment Advice : A sub-broker shall not make a recommendation to any client who might be expected to rely thereon to acquire, dispose of, retain any securities unless he has reasonable grounds for believing that the recommendation is suitable for such a client upon the basis of the facts, if disclosed by such a client as to his own security holdings, financial situation and objectives of such investment. The sub-broker should seek such information from clients, wherever they feel it is appropriate to do so.

<sup>78</sup> [(7A) Investment advice in publicly accessible media—

- (a) A sub-broker or any of his employees shall not render, directly and indirectly any investment advice about any security in the publicly accessible media, whether real-time or non-real-time, unless a disclosure of his interest including his long or short position in the said security has been made, while rendering such advice.
- (b) In case an employee of the sub-broker is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such advice.]

(8) Competence of Sub-broker: A sub-broker should have adequately trained staff and arrangements to render fair, prompt and competence services to his clients and continuous compliance with the regulatory system.

### **C. Sub-brokers vis-a-vis Stock Brokers.**

(1) Conduct of Dealings : A sub-broker shall co-operate with his broker in comparing unmatched transactions. Sub-broker shall not knowingly and wilfully deliver documents which constitute bad delivery. A sub-broker shall co-operate with other contracting party for prompt replacement of documents which are declared as bad delivery.

(2) Protection of Clients Interests : A sub-broker shall extend fullest co-operation to his stock-broker in protecting the interests of their clients regarding their rights to dividends, right or bonus shares, or any other rights relatable to such securities.

(3) Transactions with Brokers : A sub-broker shall not fail to carry out his stockbroking transactions with his broker nor shall he fail to meet his business liabilities or show negligence in completing the settlement of transactions with them.

<sup>79</sup> [(4) Agreement between sub-broker, client of the sub-broker and main broker:— A sub-broker shall enter into a tripartite agreement with his client and with the main stock broker specifying the scope of rights and obligations of the stock broker, sub-broker and such client of the sub-broker.]

(5) Advertisement and Publicity : A stock-broker shall not advertise his business publicly unless permitted by the stock exchange.

(6) Inducement of Clients : A stock-broker shall not resort to unfair means of inducing clients from other brokers.

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<sup>78</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 29-5-2001.

<sup>79</sup> Substituted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003.

#### **D. Sub-Brokers vis-a-vis Regulatory Authorities**

(1) General Conduct : A sub-broker shall not indulge in dishonourable, disgraceful or disorderly or improper conduct on the stock exchange nor shall he wilfully obstruct the business of the stock exchange. He shall comply with the rules, bye-laws and regulations of the stock exchange.

(2) Failure to give Information : A sub-broker shall not neglect or fail or refuse to submit to the Board or the stock exchange with which he is registered, such books, special returns, correspondence, documents, and papers or any part thereof as may be required.

(3) False or Misleading Returns : A sub-broker shall not neglect or fail or refuse to submit the required returns and not make any false or misleading statement on any returns required to be submitted to the Board or the stock exchanges.

(4) Manipulation : A sub-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

(5) Malpractices: A sub-broker shall not create a false market either singly or in concert with others or indulge in any act detrimental to the public interest or which leads to interference with the fair and smooth functions of the market mechanism of the stock exchanges. A sub-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

### **SCHEDULE III**

#### **Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992**

##### **[Regulation 10]**

#### **I. Fees to be paid by the Stock Broker.**

1. Every stock broker shall subject to paragraphs 2 and 3 of this Schedule pay registration fees in the manner set out below :

- (a) where the annual turnover does not exceed rupees one crore during any financial year, a sum of rupees five thousand for each financial year;
- (b) where the annual turnover of the stock-broker exceeds rupees one crore during any financial year, a sum of rupees five thousand plus one hundredth of one per cent of the turnover in excess of rupees one crore for each financial year;

<sup>80</sup>[(bb) Notwithstanding anything contained in clause (b) it is clarified that the fee shall be recoverable as computed as under :

- (i) in respect of jobbing transactions that is to say all transactions which are squared off during the same day which have not been undertaken by the broker on behalf of clients, the fees shall be computed at the rate of one two hundredth of one per cent in respect of the sale side of such transactions;
- (ii) in respect of transactions in Government securities, the bonds issued by any Public Sector Undertaking and the units traded in a similar manner, the

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<sup>80</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2002, w.e.f. 20-2-2002.

fee payable shall be computed at the rate of one thousandth of one per cent of the turnover;

- (iii) in case of carry forward, renewal or badla transactions the fees shall be computed at the rate of one hundredth of one per cent of the turnover and the reverse off setting transactions shall not be counted as part of the turnover;
  - (iv) if brokers are carrying out transactions in securities without reporting them to the stock exchange, those transactions shall be taken into account for the purpose of turnover and the fees shall be computed at the rate of one hundredth of one per cent of the turnover;
  - (v) the trade put through on other stock exchanges shall be included in the turnover of that exchange if market for that security does not exist on the exchange of which he is a member and the fees shall be computed at the rate of one hundredth of one per cent of the turnover;
  - (vi) activity such as underwriting and collection of deposits shall not be taken into account for the purpose of calculating the turnover;]
- (c) after the expiry of five financial years from the date of initial registration as a stock-broker, he shall pay a sum of rupees five thousand for <sup>81</sup>[every] block of five financial years commencing from the sixth financial year after the date of grant of initial registration to keep his registration in force.
2. Fees referred to in clauses (a) and (b) of paragraph 1 above shall be paid—
- (a) in respect of the financial year 1992-93 within one month of the commencement of these regulations ;
  - (b) in respect of the financial year beginning on the 1st day of April, 1993 and the following financial years, on or before the first day of October of the financial year to which such payment relates,

and such fees shall be computed with reference to the annual turnover relating to the preceding financial year.

3. Every remittance of fees referred to in clauses (a) and (b) of paragraph 1, shall be accompanied by a certificate as to the authenticity of turnover on the basis of which fees have been computed duly signed by the stock exchange of which the stock broker is a member or by a qualified auditor or as defined in section 226 of the Companies Act, 1956.

Explanation.—For the purpose of paragraphs 1, 2 and 3, “annual turnover” means the aggregate of the sale and purchase prices of securities received and receivable by the stock broker on his own account as well as on account of his clients in respect of sale and purchase or dealing in securities during any financial year.

<sup>82</sup>[4. Where a corporate entity has been formed by converting the individual or partnership membership card of the exchange, such corporate entity shall be exempted from payment of fee for the period for which the erstwhile individual or partnership member, as the case may be, has already paid the fees subject to the condition that the erstwhile individual or partner shall be the whole-time director of

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<sup>81</sup> Substituted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2002, w.e.f. 20-2-2002.

<sup>82</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 1998, w.e.f. 21-1-1998.

the corporate member so converted and such director will continue to hold a minimum of 40 per cent shares of the paid-up equity capital of the corporate entity for a period of at least three years from the date of such conversion.]

<sup>83</sup>[Explanation : It is clarified that the conversion of individual or partnership membership card of the exchange into corporate entity shall be deemed to be in continuation of the old entity and no fee shall be collected again from the converted corporate entity for the period for which the erstwhile entity has paid the fee as per the regulations.]

<sup>84</sup>[4A. Where a stock exchange has formed a subsidiary company, which has become a stock broker of another stock exchange, then the turnover of the stock broker who is buying, selling or dealing in securities, through the subsidiary company as a sub-broker, shall be excluded from the turnover of the subsidiary company, only if the stock broker has paid five years turnover based fees plus fee for a block of five years in accordance with the regulations, on the concerned stock exchange which has formed the subsidiary company.]

<sup>85</sup>[5. If a stock broker fails to remit fees in accordance with Paragraphs 1 and 2, he shall be liable to pay interest at 15% per annum for each month of delay or part thereof :

**Provided** that the liability to pay interest as aforesaid may be in addition to any other action which the Board may take as deemed fit against the stock broker under the Act, or the Regulations :

**Provided further** that if the liability of the stock broker on account of payment of interest works out to be Rs. 100 or less the same may be waived off by the Board taking into consideration the administrative cost involved in recovering the said amount.]

<sup>86</sup>**[Fees to be paid by sub-brokers.**

**II. Every sub-broker shall pay fees in the manner set out below :**

- (a) Where a sub-broker was granted certificate of registration by the Board before August 1, 2006 :—
  - (i) he shall pay a sum of ten thousand rupees for the block of five financial years commencing from April 1, 2007; and
  - (ii) after the expiry of the said block of five financial years, he shall pay a sum of five thousand rupees for every subsequent block of five financial years.
- (b) Where a sub-broker is granted certificate of registration by the Board on or after August 1, 2006 :—
  - (i) he shall pay a sum of ten thousand rupees for the block of five financial years commencing from the financial year in which registration has been granted; and
  - (ii) after the expiry of the said block of five financial years, he shall pay a sum of five thousand rupees for every subsequent block of five financial years.

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<sup>83</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 1998, w.e.f. 20-2-2002.

<sup>84</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2000, w.e.f. 30-8-2000.

<sup>85</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Third Amendment) Regulations, 1998, w.e.f. 16-12-1998.

<sup>86</sup> Substituted by the SEBI (Stock Brokers and Sub-brokers) (Third Amendment) Regulations, 2006, w.e.f. 31-07-2006.



(c) Every sub-broker shall pay fees under sub-clause (a) or sub-clause (b), as the case may be, within such time as may be specified by the Board.]

### **III. Manner of Fees to be paid.**

<sup>87</sup>[The fees specified above shall be paid on or before the 1st day of October each year payable by draft in favour of “The Securities and Exchange Board of India” at Bombay, or at the respective regional office.]

### <sup>88</sup>**IV. Non-applicability to stock brokers governed by Schedule IIIA.**

The provisions of this Schedule shall not apply to stock brokers to whom Schedule III-A applies, from the time when it becomes so applicable.]

## <sup>89</sup>**[SCHEDULE IIIA**

### **Payment of Fees by Stock Brokers**

[Regulation 10(1)]

#### PART A

#### **APPLICABILITY**

1. This Schedule shall apply to stock brokers from the following points of time :
  - (a) All stock brokers who are granted registration by the Board on or after the first day of October, 2006 — upon grant of such registration;
  - (b) All stock brokers who were granted registration by the Board on or after the first day of April, 2006, but before the first day of October, 2006 — from the first day of October, 2006;
  - (c) All stock brokers who have not completed five financial years from the date of grant of registration by the Board, as on the thirty first day of March, 2006 — upon completion of ten financial years from the date of grant of registration by the Board;
  - (d) All stock brokers who have completed five financial years from the date of grant of registration by the Board, as on the thirty first day of March, 2006 — upon completion of the current block of five financial years, within the meaning of item I(1)(c) of Schedule III;
  - (e) All stock brokers falling under sub-clause (c) or (d), who opt in accordance with clause 2 to be governed by the provisions of this Schedule — from such date as may be specified by the Board.
2. Stock brokers falling under sub-clause (c) or (d) of clause 1 may opt to pay fees in accordance with this Schedule before completion of the relevant time periods mentioned in those sub-clauses, by exercising an option in writing to that effect and communicating it to the Board, in such manner and within such time as may be specified by the Board.

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<sup>87</sup> Substituted by the SEBI (Payment of Fees) (Amendment) Regulations, 1995, w.e.f. 28-11-1995

<sup>88</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Third Amendment) Regulations, 2006, w.e.f. 1-10-2006.

<sup>89</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Third Amendment) Regulations, 2006, w.e.f. 1-10-2006.

PART B  
**CHARGE OF FEES**

3. On and from the applicability of this Schedule, every stock broker shall pay to the Board in accordance with Part C, a fee in respect of the securities transactions including off-market transactions undertaken by them, at the rates mentioned below<sup>.90</sup>[

Sl. No.	Nature of the securities transaction	Rate of fee
(a)	All sale and purchase transactions in securities other than debt securities.	0.0001 per cent of the price at which the securities are purchased or sold (Rs. 10 per crore)
(b)	All sale and purchase transactions in debt securities.	0.000025 per cent of the price at which the securities are purchased or sold (Rs. 2.5 per crore)

]

4. Nothing in clause 3 shall affect the liability of any stock broker to pay fees under Schedule III, which accrued before this Schedule became applicable to him and such fees shall be paid as per the relevant provisions of Schedule III as if they had not ceased to be applicable to him.

PART C  
**MANNER OF PAYMENT AND RECOVERY**

5. (1) Every recognised stock exchange shall collect from every stock broker to whom this Schedule applies, the fee payable under clause 3 in respect of—

- (a) securities transactions entered into by him in that stock exchange; and
- (b) off-market transactions entered into by him which are reported to that stock exchange,—

in accordance with the provisions of its bye-laws.

Explanation.—The Board may specify the manner in which fees shall be collected from stock brokers who report the same transactions to different stock exchanges in which they are members, under clause (b).

(2) The fee collected by a recognised stock exchange under sub-clause (1) during a calendar month shall be paid by the stock exchange to the Board by the fifth working day of the following calendar month.

(3) All recognised stock exchanges shall maintain such registers and furnish such returns or information to the Board in respect of the fee collected under this Schedule, as may be specified by the Board.

(4) Without prejudice to sub-clause (3), a recognised stock exchange shall also be liable to furnish such information or explanations to the Board as may be required by it in respect of fee collected or liable to be collected under this Schedule.

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<sup>90</sup> Substituted by the SEBI (Payment of Fees) (Amendment) Regulations, 2009 w.e.f. 29-06-09.

6. (1) Nothing contained in clause 5 shall affect the primary liability of a stock broker to pay the fees under clause 3 or shall preclude the Board from recovering any such fee remaining unpaid by any stock broker directly from him.

(2) Where due to the stock broker's default any fee which was liable to be paid on his behalf under clause 5 remains unpaid or is paid belatedly, he shall, without prejudice to any other action that may be taken under the Act, rules or regulations, pay an interest of 15 per cent per annum for every month of delay or part thereof to the Board.

(3) Every stock broker shall be liable to furnish such information or explanations to the Board as may be required by it in respect of fee paid or payable under this Schedule.]

<sup>91</sup>[**SCHEDULE IV**  
**[Regulation 16G(1)]**

**FEES TO BE PAID BY THE TRADING OR CLEARING MEMBER <sup>92</sup>[OR SELF-CLEARING MEMBER] OF DERIVATIVES EXCHANGE/DERIVATIVES SEGMENT/CLEARING CORPORATION/CLEARING HOUSE**

1. A clearing member shall pay a fee of <sup>93</sup>[Rs. 50,000] every year till his registration is in force, in the manner specified below :—

- (a) for the first financial year along with the application for registration;
- (b) for the subsequent financial years before 1st June of that financial year.

<sup>94</sup>[2. Every trading member shall pay to the Board, a fee in respect of the transactions undertaken by him on the derivatives segment of a recognised stock exchange, at the rate of <sup>95</sup>[0.0001 per cent] of his turnover <sup>96</sup>[(Rs. 10 per crore)].

Explanation.—(A) For the purpose of this clause, the expression 'turnover' shall include the value of the trades executed by the trading member on the derivatives segment of the recognised stock exchange and of the trades settled on the expiration of derivatives contracts.

(B) In case of options contracts, 'turnover' shall be computed on the basis of premium traded for the option contracts and in case where the option is exercised or assigned, it shall be additionally computed on the basis of notional value of option contracts exercised or assigned.]

<sup>97</sup>[2A. The "self-clearing member" shall pay every year a fee as specified in clauses 1 & 2. The provisions of clauses 3 to 6 shall be applicable mutatis mutandis to a self-clearing member.]

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<sup>91</sup> Inserted by the SEBI( Stock Brokers and Sub-brokers) (Amendment) Regulations, 2000 w.e.f 14-03-2000.

<sup>92</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11-2001.

<sup>93</sup> Substituted for Rs. 25,000 by the SEBI (Stock Brokers and Sub-brokers) (Third Amendment) Regulations, 2006, w.e.f. 1-10-2006.

<sup>94</sup> Substituted by the SEBI (Stock Brokers and Sub-brokers) (Third Amendment) Regulations, 2006, w.e.f. 1-10-2006.

<sup>95</sup> Substituted by the SEBI (Payment of Fees) (Amendment) Regulations, 2009 w.e.f. 29-06-09.

<sup>96</sup> Substituted by the SEBI(Payment of Fees) (Amendment) Regulations, 2009 w.e.f. 29-06-09

<sup>97</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 15-11-2003.

<sup>98</sup>[3. (1) Every recognised stock exchange shall collect from every trading member, clearing member and self-clearing member, the fee payable under clause 2 in respect of his turnover in the derivatives segment of that stock exchange in accordance with the provisions of its bye-laws.

(2) The fee collected by a recognised stock exchange under sub-clause (1) during a calendar month shall be paid by the stock exchange to the Board by the fifth working day of the following calendar month.

(3) All recognised stock exchanges shall maintain such registers and furnish such returns or information to the Board in respect of the fee collected under this Schedule, as may be specified by the Board.

(4) Without prejudice to sub-clause (3), a recognised stock exchange shall also be liable to furnish such information or explanations to the Board as may be required by it in respect of fee collected or liable to be collected under this Schedule.]

4. A trading member who also acts as a clearing member shall pay the annual fee separately, as applicable to each category <sup>99</sup>[as specified in clauses 1 and 2 above].

<sup>100</sup>[5. (1) Nothing contained in clause 3 shall affect the primary liability of a trading member to pay the fees under clause 2 or shall preclude the Board from recovering any such fee remaining unpaid by any trading member directly from him.

(2) Where due to the trading member's default any fee which was liable to be paid on his behalf under clause 3 remains unpaid or is paid belatedly, he shall, without prejudice to any other action that may be taken under the Act, rules or regulations, pay an interest of 15 per cent per annum for every month of delay or part thereof to the Board.

(3) Every trading member shall be liable to furnish such information or explanations to the Board as may be required by it in respect of fee paid or payable under this Schedule.]

6. The financial year shall mean the year commencing from 1st April and ending on 31st March of the following year.]

<sup>101</sup>[**SCHEDULE IVA**  
**[Regulation 16P(1)]**  
**FEES TO BE PAID BY THE TRADING OR CLEARING MEMBER**  
**OF CURRENCY DERIVATIVES SEGMENT OF A STOCK**  
**EXCHANGE/CLEARING CORPORATION/CLEARING HOUSE**

1. A clearing member shall pay a fee of Rs. 50,000 every year till his registration is in force, in the manner specified below:—

(a) for the first financial year along with the application for registration;

(b) for the subsequent financial years before 1st June of that financial year.

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<sup>98</sup> Substituted by the SEBI (Stock Brokers and Sub-brokers) (Third Amendment) Regulations, 2006, w.e.f. 1-10-2006.

<sup>99</sup> Substituted by the SEBI (Stock Brokers and Sub-brokers) (Third Amendment) Regulations, 2006, w.e.f. 1-10-2006 for the words, "as specified in clause 2 and 3"

<sup>100</sup> Substituted by the SEBI (Stock Brokers and Sub-brokers) (Third Amendment) Regulations, 2006, w.e.f. 1-10-2006

<sup>101</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2008, w.e.f. 11-08-2008.

2. Every trading member shall pay to the Board, a fee in respect of the transactions undertaken by him on the currency derivatives segment of a recognised stock exchange, at the rate of <sup>102</sup>[0.0001 per cent] of his turnover <sup>103</sup>[(Rs. 10 per crore)]<sup>104</sup>[in case of currency derivatives contracts and 0.000025 per cent. (Rs.2.5 per crore) in case of interest rate derivatives contracts].

Explanation.—(A) For the purpose of this clause, the expression ‘turnover’ shall include the value of the trades executed by the trading member on the currency derivatives segment of the recognised stock exchange and of the trades settled on the expiration of currency derivatives contracts <sup>105</sup>[and interest rate derivatives contracts].

(B) In case of options contracts, ‘turnover’ shall be computed on the basis of premium traded for the option contracts and in case where the option is exercised or assigned, it shall be additionally computed on the basis of notional value of option contracts exercised or assigned.

3. (1) Every recognised stock exchange shall collect from every trading member and clearing member, the fee payable under clause 2 in respect of his turnover in the currency derivatives segment of that stock exchange in accordance with the provisions of its bye-laws.

(2) The fee collected by a recognised stock exchange under sub-clause (1) during a calendar month shall be paid by the stock exchange to the Board by the fifth working day of the following calendar month.

(3) All recognised stock exchanges shall maintain such registers and furnish such returns or information to the Board in respect of the fee collected under this Schedule, as may be specified by the Board.

(4) Without prejudice to sub-clause (3), a recognised stock exchange shall also be liable to furnish such information or explanations to the Board as may be required by it in respect of fee collected or liable to be collected under this Schedule.

4. A trading member who also acts as a clearing member shall pay the annual fee separately, as applicable to each category as specified in clauses 1 and 2.

5. (1) Nothing contained in clause 3 shall affect the primary liability of a trading member to pay the fees under clause 2 or shall preclude the Board from recovering any such fee remaining unpaid by any trading member directly from him.

(2) Where due to the trading member’s default any fee which was liable to be paid on his behalf under clause 3 remains unpaid or is paid belatedly, he shall, without prejudice to any other action that may be taken under the Act, rules or regulations, pay an interest of 15 per cent per annum for every month of delay or part thereof to the Board.

(3) Every trading member shall be liable to furnish such information or explanations to the Board as may be required by it in respect of fee paid or payable under this Schedule.

6. The financial year shall mean the year commencing from 1st April and ending on 31st March of the following year.]

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<sup>102</sup> Inserted by the SEBI(Payment of Fees) (Amendment) Regulations, 2009 w.e.f. 29-06-09.

<sup>103</sup> Inserted by the SEBI(Payment of Fees) (Amendment) Regulations, 2009 w.e.f. 29-06-09

<sup>104</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2009 w.e.f. 19-11-2009.

<sup>105</sup> Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2009 w.e.f. 19-11-2009