



**CIRCULAR**

CIR/MRD/DSA/14/2012

May 30, 2012

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

Dear Sir / Madam,

**Sub.: Exit Policy for De-recognized/ Non-operational Stock Exchanges**

1. SEBI vide circular dated December 29, 2008 issued guidelines in respect of exit option to stock exchanges. The exit policy of aforesaid exchanges has been reviewed by the Board and the said Circular stands revised/modified to the extent as under.
2. **Process of De-recognition and Exit**
  - 2.1 Exchanges may seek exit through voluntary surrender of recognition.
  - 2.2 Stock exchanges where the annual trading turnover on its own platform is less than Rs 1000 Crore can apply to SEBI for voluntary surrender of recognition and exit, at any time before the expiry of two years from the date of issuance of this Circular.
  - 2.3 If the stock exchange is not able to achieve the prescribed turnover of Rs 1000 Crores on continuous basis or does not apply for voluntary surrender of recognition and exit before the expiry of two years from the date of this Circular, SEBI shall proceed with compulsory de-recognition and exit of such stock exchanges, in terms of the conditions as may be specified by SEBI.
  - 2.4 Stock Exchanges which are already de-recognised as on date, shall make an application for exit within two months from the date of this circular. Upon failure to do so, the de-recognized exchange shall be subject to compulsory exit process.
3. With regard to exit option to shareholders of exclusively listed companies, on stock exchanges seeking de-recognition and/ or exit and de-recognised stock exchanges, the following process should be followed by the exclusively listed companies. Such an exchange shall monitor the process given below until its exit:
  - 3.1 Exclusively listed companies shall list on any other recognized stock exchange.

Such other recognized stock exchanges may facilitate the listing of exclusively listed companies, and, if required, carry out changes to their listing eligibility criteria, in the interest of investors. Stock exchanges may have differential listing criteria for such exclusively listed companies in respect of following criteria viz, Market Capitalization, Dividend paying track record, profitability, and paid-up capital. In this regard, the stock exchanges shall issue the differential listing eligibility criteria for such exclusively listed companies.

3.2 The exclusively listed companies, which fail to obtain listing on any other stock exchange, will cease to be a listed company and will be moved to the dissemination board by the exiting stock exchange. Therefore, in the interest of investors of exclusively listed companies, a mechanism of dissemination board will be set-up by stock exchanges having nationwide trading terminals.

3.3 Dissemination Board:

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

Features of Dissemination Board:

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



- vi. The exiting Stock Exchange as well as exchange providing dissemination board will give wide publicity about the dissemination board in one leading national daily and one local daily.

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

4. Members of Stock Exchanges to continue trading through Subsidiary

4.1. In case of de-recognition of a stock exchange, the exchange may provide trading opportunity to their trading members to trade on stock exchanges having nationwide terminals through their subsidiary company, which will function as normal broking entity in terms of SEBI circular dated December 29, 2008. In case of de-recognition, subsidiary company shall continue to function as broking entities in compliance of, *inter alia*, the provisions of the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992.

4.2. In case of de-recognition, the MoU mechanism, if any, between a stock exchange not having nationwide trading terminal and a stock exchange having nationwide trading terminal, shall be discontinued and in such cases the trading members of erstwhile stock exchanges will gain access to exchanges having nationwide terminals through membership of the existing subsidiary company.

5. Treatment of the Assets of de-recognized exchange

5.1. De-recognized stock exchange (voluntarily de-recognized or compulsorily de-recognized) is permitted to distribute its assets subject to certain conditions as laid down in this circular, as well as other guidelines that may be issued by SEBI, Government(s), or any other statutory authority from time to time.

5.2. For the purpose of valuation of the assets of the stock exchange, a valuation agency shall be appointed by SEBI.

5.3. The quantum of assets for distribution will be available after payment of statutory dues including income tax, transfer of funds as specified in para 6.1, payment of dues as specified in para 6.2, refund of deposit (refundable) to the stock brokers including their initial contribution/ deposit to Settlement Guarantee Fund / Trade Guarantee Fund (SGF/ TGF), and contribution to SEBI as specified in para 5.4. However, the remainder of SGF/ TGF after refunding to stock broker as mentioned above shall be considered for the purpose of valuation of the assets of the exchange.



- 5.4. In case of de-recognition and exit, the stock exchange shall contribute upto 20% of its assets (after tax) towards SEBI Investor Protection and Education Fund (IPEF) for investor protection and in order to cover future liabilities, if any. The contribution may be decided by SEBI taking into account, inter alia, the governance standards of the stock exchange and estimation of future liabilities.
- 5.5. All stock exchanges including de-recognised stock exchanges shall not alienate any assets of the exchange without taking prior approval of SEBI.
6. Other Conditions:
  - 6.1. The exchange shall transfer Investor Protection Fund, Investor Services Fund, 1% security deposit available with them to the SEBI IPEF. The 1% security deposit shall subsequently be returned to the issuer company in due course on satisfying the prescribed conditions.
  - 6.2. The exchange shall pay following dues to SEBI:
    - 6.2.1. The dues outstanding to SEBI including 10% of the listing fee and the annual regulatory fee.
    - 6.2.2. The outstanding registration fees of brokers/trading members of such de-recognised stock exchanges as specified in the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992 till the date of such de-recognition.
      - 6.2.2.1. Dues of the brokers to SEBI shall be recovered by the exchange out of the brokers' deposits / capital / share of sale proceeds / winding up proceeds / dividend payable, etc. available with the exchange.
      - 6.2.2.2. The exchange will be liable to make good any shortfall in collection of dues of the brokers to SEBI.
  - 6.3. In case the stock exchange, after de-recognition, continues as a corporate entity under the Companies Act, 1956, it shall not use the expression 'stock exchange' or any variant in its name or in its subsidiaries name so as to avoid any representation of present or past affiliation with the stock exchange. The subsidiaries of de-recognised stock exchanges may continue to function as any other normal broking entity, managed by its own board, with a suitable change of name so as to avoid any representation of any present or past affiliation with the stock exchange.
  - 6.4. Sale/distribution/transfer of assets/winding up of such exchanges/companies shall be subject to the applicable laws in force.
  - 6.5. The stock exchange shall set aside sufficient funds in order to provide for settlement of any claims, pertaining to pending arbitration cases, arbitration



awards, not implemented, if any, liabilities/claims of contingent nature, if any, and unresolved investors complaints/grievances lying with the exchange.

7. SEBI may allow de-recognition and/ or exit to stock exchanges subject to additional conditions as may be decided by SEBI in the interest of trade or in the public interest including securities market.
8. In case of stock exchange seeking exit, through voluntary surrender of recognition or after being compulsorily de-recognized by SEBI, an appropriate order shall be passed by SEBI.

9. **Applicability**

This circular shall apply to:

- (i) Recognized stock exchanges
  - (ii) Stock exchanges that stand de-recognised as on date of this circular
  - (iii) Stock exchanges that have applied for derecognition/ exit as on the date of this circular
10. This circular is issued in exercise of powers conferred under Section 11 (1) and 11(2) (j) of the Securities and Exchange Board of India Act, 1992, read with Section 5 of the Securities Contracts (Regulation) Act, 1956, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
11. This circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in).

Yours faithfully,

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