



CIRCULAR

CIR/MRD/DP/15/2015

July 16, 2015

To

All stock exchanges.

Dear Sir / Madam,

Subject: Policy for annulment of trades undertaken on stock exchanges

Section 9 of the Securities Contracts (Regulation) Act, 1956 ("SCRA"), *inter alia*, empowers stock exchanges to make bye-laws for regulation and control of contracts, subject to the previous approval of SEBI. In terms of the bye-laws framed under this section, stock exchanges are empowered to annul trades, either *suomoto* or on receipt of requests from stock brokers, if there are sufficient reasons for such annulment. However, to ensure finality of trades executed on trading platforms of the stock exchanges, to the extent possible, annulment of trades should be avoided by the stock exchanges.

2. In order to bring about uniformity and transparency in the process of trade annulment, a [discussion paper](#) was placed on SEBI's website to seek views and suggestions of the public. Taking into consideration inputs received during the discussion process, it has been decided that stock exchanges shall be guided by the following provisions with regard to the mechanism for annulment (or by whatever named called) of trade(s) resulting from material mistake or erroneous orders:

2.1. Examination of trade(s) for annulment may be taken up either *suomoto* by stock exchange or upon receipt of request from a stock broker. Stock exchanges shall define suitable criteria so as to discourage frivolous trade annulment requests from the stock brokers.

2.2. Stock exchanges shall prescribe the procedure for submission of requests by stock brokers, including mechanism to submit requests in electronic form.

2.3. Stock brokers shall submit such request to the stock exchange within 30 minutes from execution of trade(s) which is sought to be annulled. However, stock exchange may consider requests received after 30 minutes, but no longer than 60 minutes, only in exceptional cases and after examining and recording reasons for such consideration.

2.4. Stock exchanges shall suitably and in a time bound manner inform details of such requests to all stock brokers of the stock exchange.



2.5. Stock exchanges shall expeditiously, not later than start of next trading day, examine and decide upon such requests. While examining such requests, stock exchanges shall consider the potential effect of such annulment on trades of other stock brokers/investors across all segments, including trades that resulted as an outcome of trade(s) under consideration.

2.6. As an alternate mechanism, stock exchanges may consider resetting the price of trade(s) under consideration to an appropriate price(s), if price reset is deemed to be a less disruptive mechanism as compared to trade annulment.

2.7. Stock exchanges shall undertake annulment or price reset only in exceptional cases, after recording reasons in writing, in the interest of the investors, market integrity, and maintaining sanctity of price discovery mechanism.

2.8. In cases, wherein request for annulment of trade(s) has been submitted to more than one stock exchange by a stock broker, in respect of similar trades, stock exchanges shall jointly take a decision on such requests.

2.9. Stock exchange shall convey its reasoned decision on annulment of trade(s) or price reset to all counterparties to the trade(s) under consideration. Stock exchange shall also publish details of such decision on its website.

2.10. A mechanism to request a review of the decision taken by the stock exchange shall be provided. To this end, the aggrieved party shall submit such request to the stock exchange before the payout deadline of the trades.

2.11. In the event such review request is received by the stock exchange, the matter shall be referred to stock exchange's independent oversight committee on 'Trading and Surveillance function', as constituted under regulation 29(1) of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012. The payout relating to the settlement of such trades shall be withheld till such review of stock exchange's decision is completed.

2.12. The oversight committee shall expeditiously examine the request of stock brokers and provide its recommendations on the matter within 30 days of receipt of request by the stock exchange. Stock exchange shall convey its decision on the review request of the stock brokers within 2 working days of receipt of the recommendations from the committee. Stock exchange shall also publish details of such decision on its website.



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3. Stock exchanges shall charge an application fee equal to 5% of the value of trade(s) for accepting annulment request from a stock broker, subject to minimum fee of ₹ 1 lakh and maximum fee of ₹ 10 lakhs. Stock exchanges may suitably increase the upper limit of the application fee as deemed necessary to discourage frequent or frivolous requests for annulment. The amount realised as application fee shall be credited to the "Investor Protection Fund" of the concerned stock exchange.
4. In addition, stock exchanges shall implement a suitable framework to penalise stock brokers who place erroneous orders.
5. With regard to annulment of trade(s) resulting from wilful misrepresentation or manipulation or fraud, trade(s) may be annulled as provided in the extant bye-laws of the stock exchanges.
6. Stock exchanges may specify additional requirements as they may deem fit in order to ensure orderly trading and market integrity.
7. Stock exchanges are directed to:
 - 7.1. take necessary steps to put in place systems for implementation of the circular, including necessary amendments to the relevant bye-laws, rules and regulations, within one month from the date of this circular;
 - 7.2. bring the provisions of this circular to the notice of the stock brokers and also disseminate the same on its website; and
 - 7.3. communicate to SEBI the status of implementation of the provisions of this circular.
8. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

Manoj Kumar
General Manager
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