

THE SECURITIES AND EXCHANGE BOARD OF INDIA

EXIT ORDER IN RESPECT OF

UNIVERSAL COMMODITY EXCHANGE LIMITED

1. Universal Commodity Exchange Limited (hereinafter referred as “UCX/Exchange”), a nation-wide multi-commodity exchange, was granted recognition under section 6 of the Forward Contract (Regulation) Act, 1952 (hereinafter referred to as “FCRA”) vide Notification S.O. 2008(E), dated August 30, 2012, by the Government of India. The said recognition was granted subject to the condition that the Exchange shall comply with such directions as may be issued from time to time by the erstwhile Forward Markets Commission (hereinafter referred as “FMC”). The Exchange obtained the ‘Certificate of Registration’ from FMC on March 25, 2013, pursuant to which it commenced trading operations on April 19, 2013.
2. The Board of the Exchange had suspended trading operations with effect from July 16, 2014 in view of the drastic decline in trading volume. Thereafter, the Exchange has made no attempts for revival of trading and has not formulated any plan for the purpose of revival of trading. The net worth of the Exchange has been completely eroded. The Promoter of the Exchange, Mr. Ketan Sheth, is deceased. All the Exchange officials and most of the Board Members have tendered their resignation. In view of the same, the entire exit proceedings were conducted in co-ordination with the representatives of Institutional Shareholders of the Exchange viz; National Bank for Agriculture and Rural Development (NABARD), Indian Farmers Fertiliser Co-operative Ltd. (IFFCO), IDBI Bank Limited (IDBI) & Rural Electrification Corporation Limited (REC).
3. The erstwhile FMC vide its Circular No. 9/1/2014-MKT-I (Vol-II), dated May 19, 2015, had directed all the commodity derivatives exchanges who had suspended their trading operations, to refund the clients margin money and members’ deposits and resolve all outstanding client disputes. The erstwhile FMC had also directed that failure by an exchange to revive its trading operations within twelve months from the date of suspension of trading would lead to cancellation of its registration.
4. As per Section 28A (1) of the Finance Act, 2015, pursuant to the merger of FMC with the

Securities and Exchange Board of India (hereinafter referred to as 'SEBI'), all the associations recognised under FCRA are deemed to be recognised stock exchanges under the Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as 'SCRA') and hence UCX is deemed to be a recognised stock exchange under the SCRA.

5. SEBI has issued a Circular No.CIR/CDMRD/DEA/01/2016 dated January 11, 2016 (hereinafter referred to as "Exit Circular, 2016") laying out the mandatory requirements/ exit policy for all commodity derivatives exchanges. In terms of paragraph 4 of the Exit Circular, 2016, if there is no trading operation on the platform of any commodity derivatives exchanges for more than twelve months, then such exchange shall be liable to exit.
6. The erstwhile FMC vide letter dated July 9, 2015 issued a show cause notice to UCX, wherein the Exchange was called upon to explain as to why registration granted to the Exchange by the erstwhile FMC should not be cancelled and why the erstwhile FMC should not recommend to the Central Government for withdrawal of recognition granted under Section 6 of FCRA. However no satisfactory explanation was received from UCX. Subsequently, the erstwhile FMC vide its letter dated September 07, 2015 recommended to the Ministry of Finance that the permanent recognition granted to the Exchange may be withdrawn as per provision laid down under Section 7 of FCRA.
7. In this regard, meetings were held on May 20, 2016, July 20, 2016 and November 15, 2017, with the representatives of all the institutional shareholders of UCX wherein they agreed to the process of valuation of assets and liabilities of UCX in terms of the provisions of the Exit Circular, 2016. They also agreed to appoint a Valuation firm for the purpose of valuation of assets and liabilities of UCX and share the cost thereof.
8. I have considered the facts pertaining to UCX, the relevant documents, valuation report and submissions by the Exchange placed on record for the purpose of considering the exit of UCX in terms of the Exit Circular, 2016. In terms of clause 7 of the Exit Circular, 2016, the following conditions are inter-alia, required to be complied with by any non-functional commodity derivative exchange before it is granted an exit:
 - (a) Distribution of its assets subject to certain conditions as laid down in the Exit Circular, 2016 as well as other guidelines that may be issued by SEBI, Government or any other statutory body from time to time.

- (b) For the purpose of valuation of the assets of the exchange, submission of the report of a valuation agency appointed by SEBI and all the valuation charges to be paid by the exchange.
- (c) Quantum of assets for distribution will be available after payment of the following by the exchange:
- (i) Statutory dues including Income Tax;
 - (ii) Transfer of Investor Protection Fund, or any such fund available with the exchange to SEBI Investor Protection and Education Fund (hereinafter referred to as the 'IPEF');
 - (iii) Payment of following dues to SEBI by the concerned exchange:-
 - Dues outstanding to SEBI and the annual regulatory fee;
 - The outstanding registration fees of brokers/trading members of such de-recognised exchanges as specified in the SEBI (Stock Brokers and Sub Brokers) Regulations, 1992, till the date of such de-recognition;
 - In case of any shortfall in collection of dues of the brokers to SEBI, the exchange will make good the shortfall;
 - (iv) Refund of deposit (refundable) to the stock brokers including their initial contribution/deposit to Settlement Guarantee Fund/Trade Guarantee Fund (SGF/TGF).
- (d) Contribution of up to 20% of its assets (after tax) towards IPEF taking into account, *inter alia*, the governance standards of the exchange and estimation of future liabilities.
- (e) The concerned commodity derivatives exchange to 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 investor complaints/grievances lying with it.
9. The condition mentioned in *paragraph 8(a) above*, is a general clause for necessary compliance by the Exchange.
10. In terms of condition mentioned in *paragraph 8(b) above*, SEBI on August 23, 2016 appointed M/s. Jain Tripathi & Co., as the valuation agency for verification and valuation of assets and liabilities of UCX. The valuation agency submitted its final report to SEBI on January 18, 2017.

11. With respect to the compliance of conditions specified in the Exit Circular, 2016 and the conditions with respect to settlement of liabilities by UCX, from the findings in the report submitted by the valuation agency M /s Jain Tripathi & Co., and also from the undertakings submitted by the institutional shareholders of the UCX (namely, National Bank for Agriculture and Rural Development (NABARD), Indian Farmers Fertiliser Cooperative Ltd. (IFFCO), IDBI Bank Limited (IDBI) & Rural Electrification Corporation Limited (REC)), vide letters dated January 11, 2018, December 18, 2017, December 28, 2017 and February 20, 2018, respectively, it is noted as follows:

- (a) With respect to 8(c) (i) above, the valuation agency in their report has stated that there is no statutory liability pending with the Exchange.*
- (b) With respect to condition mentioned in paragraph 8 (c) (ii) above, the valuation agency in their report has stated that there is no such balance in the Investor Protection Fund or any such fund.*
- (c) With respect to paragraph 8 (c) (iii) above, Shareholders of UCX have paid the outstanding annual regulatory fees amounting to ₹1,50,000 for the financial years 2015-16 and 2016-17. Further, as per the valuation report, there is no outstanding registration fees/ dues of brokers/ sub-brokers.*
- (d) With respect to condition mentioned in paragraph 8(c) (iv) above, the valuation agency has certified that UCX has refunded all deposit to the stock brokers including their initial contribution to SGF/TGF and no liabilities are pending on this account.*
- (e) With respect to condition mentioned in para 8(d) above, Shareholders of UCX have contributed towards SEBI IPEF an amount of ₹1,00,000/- (Rupees one lakh only).*
- (f) With respect to condition mentioned in paragraph 8(e) above, the shareholders of UCX have undertaken that for meeting all the liabilities of UCX towards any claim whether existing or in future, the amount is limited to the amount set aside in an escrow account which shall comprise of the amounts lying in the existing bank accounts of UCX. Provided that the claim, if any, against UCX is preferred or raised within three years from the date of transfer of amounts into the Escrow account.*
- (g) With respect to its other liabilities, as pointed out by the valuation agency, there are no liabilities pending in the book of accounts payable to any person/entity.*
- (h) The valuation agency in its report has stated that UCX has no liabilities/ claims of a contingent nature and no outstanding liabilities which have an immediate bearing on the de-recognition/ exit.*

12. I have considered the aforesaid facts pertaining to UCX and the relevant documents, valuation report, submission by the shareholders of UCX placed on record for the purpose of considering the grant of exit of UCX in terms of the Exit Circular, 2016. It is observed that all known liabilities as on date have been brought out in the valuation report. I note that UCX has substantially complied with all the conditions contained in the Exit Circular, 2016 and shareholders have submitted an undertaking to state that. Therefore, I am of the view that it is a fit case to allow exit to UCX in terms of clause 7 of the Exit Circular, 2016.
13. I, therefore, in exercise of the powers conferred upon me by virtue of Section 19 read with provisions of Section 11(1), Section 11(2) (j) of the Securities and Exchange Board of India Act, 1992 and Sections 4, 5 and 12A of the SCRA allow the exit of the Universal Commodity Exchange Limited, as a stock exchange and consequent withdrawal of recognition granted to UCX. I, hereby direct it to:-
- (a) comply with its tax obligations under Income Tax Act, 1961;
 - (b) comply with the undertakings given by it to SEBI;
 - (c) comply with other consequential conditions of Exit Circular, 2016; and
 - (d) not to use the expression “Exchange” or any variant of this expression in its name and to avoid any representation of present or past affiliation with the stock exchange, in all media.
14. The order shall come into force with immediate effect. A copy of this order shall also be forwarded to the Income Tax Authorities, the Ministry of Corporate Affairs and the State Government of Maharashtra intimating the exit of the Universal Commodity Exchange Limited and for appropriate action at their end as per applicable laws.

DATE: March 16, 2018

PLACE: MUMBAI

**MADHABI PURI BUCH
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA**