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## **SECTION - 1: BULK DEALS AND BLOCK DEALS**

### **1.1 Bulk Deal<sup>1</sup>**

A “bulk” deal constitutes all transactions in a scrip (on an exchange) where the total quantity of shares bought/sold is more than 0.5% of the number of equity shares of the company listed on the exchange. The quantitative limit of 0.5% can be reached through one or more transactions executed during the day in the normal market segment.

#### **Disclosures**

- i. The disclosure shall be made with respect to all transactions in a scrip where total quantity of shares bought/sold is more than 0.5% of the number of equity shares of the company listed on the stock exchange.
- ii. The brokers shall disclose to the stock exchange the name of the scrip, name of the client, quantity of shares bought/sold and the traded price.
- iii. The disclosure shall be made by the brokers immediately upon execution of the trade.
- iv. The Stock exchanges shall disseminate the aforesaid information on the same day after market hours to the general public.

### **1.2 Block Deal<sup>2</sup>**

Block deal is execution of large trades through a single transaction without putting either the buyer or seller in a disadvantageous position. For this purpose, stock exchanges are permitted to provide a separate trading window.

Block deal will be subject to the following conditions<sup>3</sup>:

- i. Morning Block Deal Window: This window shall operate between 08:45 AM to 09:00 AM. The reference price for execution of block deals in this window shall be the previous day closing price of the stock. The stock exchanges shall set their trading hours between 08:45AM to 5:00 PM with a stipulation that between 08:45AM and 09:00AM, the stock exchanges shall operate only for executing trades in the block deal window.
- ii. Afternoon Block Deal Window: This window shall operate between 02:05 PM to 2:20 PM. The reference price for block deals in this

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<sup>1</sup> Circular No. SEBI/MRD/SE/Cir-7 /2004 dated January 14, 2004

<sup>2</sup> Circular No. MRD/DoP/SE/Cir- 19 /05 dated September 2, 2005

<sup>3</sup> Circular No. CIR/MRD/DP/118/2017 dated October 26, 2017



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window shall be the volume weighted average market price (VWAP) of the trades executed in the stock in the cash segment between 01:45 PM to 02:00 PM. Between the period 02:00 pm to 02:05 pm, the stock exchanges shall calculate and disseminate necessary information regarding the VWAP applicable for the execution of block deals in the Afternoon block deal window.

- iii. The orders placed shall be within  $\pm 1\%$  of the applicable reference price in the respective windows as stated above.
- iv. The minimum order size for execution of trades in the Block deal window shall be Rs.10 Crore. Every trade executed in this block deal windows must result in delivery and shall not be squared off or reversed.
- v. The stock exchanges shall disseminate the information on block deals such as the name of the scrip, name of the client, quantity of shares bought/sold, traded price, etc. to the general public on the same day, after the market hours.
- vi. Disclosure of trade details of "bulk deals" as specified in para 1.1 shall be continued to be made by the stock exchanges to the general public on the same day after the market hours.
- vii. The stock exchanges shall ensure that all appropriate trading and settlement practices as well as surveillance and risk containment measures, etc., as applicable to the normal trading segment, shall be applicable and implemented in respect of this Block windows also



## SECTION - 2: CIRCUIT FILTER / PRICE BANDS

### 2.1 Index based Market wide circuit filter<sup>4</sup>

These circuit breakers are used to stop adverse movements either way. The circuit breakers are applied at three stages of the index movement either way at 10%, 15% and 20%. The market wide circuit breakers would be triggered by movement of either BSE Sensex or the NSE Nifty 50 whichever is breached earlier.

- i. In case of a 10% movement of either of these indices, there would be a 1 hour market halt if the movement takes place before 1 pm. In case the movement takes place at or after 1 pm but before 2:30 pm there will be a trading halt for ½ hour. In case the movement takes place at or after 2:30 pm there will be no trading halt at the 10% level and the market will continue trading.
- ii. In case of a 15% movement of either index, there will be a 2 hour halt if the movement takes place before 1 pm. If the 15% trigger is reached on or after 1 pm but before 2 pm, there will be a 1 hour halt. If the 15% trigger is reached on or after 2 pm the trading will halt for the remainder of the day.
- iii. In case of a 20% movement of the index, the trading will be halted for the remainder of the day.

The stock exchange on a daily basis shall translate the 10%, 15% and 20% circuit breaker limits of market-wide index variation based on the previous day's closing level of the index.<sup>5</sup>

### **Index based market-wide circuit breaker mechanism<sup>6</sup>**

On the basis of recommendations of SMAC and TAC, stock exchanges are advised to strengthen the mechanism of index based market - wide circuit breaker as under:

- i. NSE and BSE shall compute their market-wide index (NIFTY and SENSEX respectively) after every trade in the index constituent stocks and shall check for breach of market-wide circuit breaker limits after every such computation of the market-wide index.
- ii. In the event of breach of market-wide circuit breaker limit, stock exchange shall stop matching of orders in order to bring about a trading halt as mandated above. All unmatched orders present in the system shall thereupon be purged by the stock exchange.

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<sup>4</sup> Circular No. SMDRPD/Policy/Cir-37 /2001 dated June 28, 2001

<sup>5</sup> Amended vide Circular No. CIR/MRD/DP/25/2013 dated September 03, 2013.

<sup>6</sup> Circular No. CIR/MRD/DP/02/2015 dated January 12, 2015



- iii. BSE and NSE shall implement suitable mechanism to ensure that all messages related to market-wide index circuit breakers are given higher priority over other messages. Further, the systems (including the network) for computation of market-wide index, checking for breach of circuit breaker limits and initiating message to stop matching of executable order and acceptance of fresh orders, shall not be used for any other purposes.
- iv. BSE and NSE shall include in the scope of their annual system audit a review of its index based market-wide circuit breaker mechanism with the view to identify improvements.

## **2.2 Scrip wise price bands**

- i. In addition to the market wide index based circuit filters, there are individual scrip wise price bands of 20% either way, for all scrips in the compulsory rolling settlement except for the scrips on which derivatives products are available or scrips included in indices on which derivative products are available.
- ii. Appropriate individual scrip wise price bands upto 20% shall be applicable on those scrips on which no derivatives products are available but which are part of Index Derivatives.<sup>7</sup>

## **2.3 Resumption of trading after the halt with a pre-open call auction session<sup>8</sup>**

- i. Post-observation of the trading halt, stock exchange shall resume trading in the Cash Market with a fifteen minutes pre-open call auction session.
- ii. Such pre-open call auction session shall be governed as per the provisions mandated vide SEBI circulars no. CIR/MRD/DP/21/2010 dated July 15, 2010, CIR/MRD/DP/32/2010 dated September 17, 2010; CIR/MRD/DP/6/2013 dated February 14, 2013 and CIR/MRD/DP/38/2013 dated December 19, 2013.

In order to accommodate such pre-open call auction session, the extant duration of the market halt shall be suitably reduced by fifteen minutes.

## **2.4 Dynamic Price Bands (earlier called Dummy Filters or Operating Range)<sup>9</sup>**

- i. For scrips excluded from the requirement of price bands, stock exchanges have implemented a mechanism of dynamic price bands (commonly known as dummy filters or operating range) which prevents acceptance of

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<sup>7</sup> Amended vide Circular No. CIR/MRD/DP/04/2014 dated February 06, 2014

<sup>8</sup> Amended vide Circular No. CIR/MRD/DP/25/2013 dated September 03, 2013

<sup>9</sup> Circular No. CIR/MRD/DP/34/2012 dated December 13, 2012





orders for execution that are placed beyond the price limits set by the stock exchanges. Such dynamic price bands are relaxed by the stock exchanges as and when a market-wide trend is observed in either direction.

- ii. It has been decided to tighten the initial price threshold of the dynamic price bands. Stock exchange shall set the dynamic price bands at 10% of the previous day's <sup>10</sup> closing price for the following securities:
  - (a) Stocks on which derivatives products are available,
  - (b) Stocks included in indices on which derivatives products are available,
  - (c) Index futures,
  - (d) Stock futures.
- iii. Further, in the event of a market trend in either direction, the dynamic price bands shall be relaxed by the stock exchanges in increments of 5%. Stock exchanges shall frame suitable rules with mutual consultation for such relaxation of dynamic price bands and shall make it known to the market.

## **2.5 Trade controls in Normal Trading Session for Initial Public Offering (IPO) and Re-listed scrips<sup>11</sup>**

### **1. Trade Timing**

The normal trading session for IPO and Re-listed scrips on their first day of trading shall commence only subsequent to conclusion of the Call Auction session for such scrip on BSE and NSE. The duration of the Call Auction session is prescribed vide SEBI circular no CIR/MRD/DP/01/2012 dated January 20, 2012.

#### **Eligible scrip**

##### **I. IPO scrips**

#### **Price Bands**

- a. For issue size up to Rs. 250 cr, the applicable price bands for the first day shall be-
  - i. In case equilibrium price is discovered in the Call Auction, the price band in the normal trading session shall be 5% of the equilibrium price.
  - ii. In case equilibrium price is not discovered in the Call Auction, the price band in the normal trading session shall be 5% of the issue price.

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<sup>10</sup> Amended vide Circular No. CIR/MRD/DP/25/2013 dated September 03, 2013

<sup>11</sup> Circular No. CIR/MRD/DP/02/2012 dated January 20, 2012



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iii. On Stock exchanges, not eligible to offer Call Auction, the reference price for price bands for the first day shall be -

- A. In case equilibrium price is discovered in the Call Auction at BSE/NSE, the price band in the normal trading session shall be 5% discovered equilibrium price. In case of multiple equilibrium prices, the discovered equilibrium price closer to the issue price shall be taken as the reference price for price band on the first day.
- B. In case equilibrium price is not discovered in the Call Auction, the price in the normal trading session band shall be 5% of the issue price.

**Additionally, the trading shall take place in TFT segment for first 10 days from commencement of trading.**

b. For issue size greater than Rs. 250 cr, the applicable price bands for the first day shall be -

- i. In case equilibrium price is discovered in the Call Auction, the price band in the normal trading session shall be 20% of the equilibrium price.
- ii. In case equilibrium price is not discovered in the Call Auction, the price band in the normal trading session shall be 20% of the issue price.

iii. On Stock exchanges, not eligible to offer Call Auction, the reference price for price bands for the first day shall be -

- A. In case equilibrium price is discovered in the Call Auction at BSE/NSE, the price band in the normal trading session shall be 20% discovered equilibrium price. In case of multiple equilibrium prices, the discovered equilibrium price closer to the issue price shall be taken as the reference price for price band on the first day
- B. In case equilibrium price is not discovered in the Call Auction, the price band in the normal trading session shall be 20% of the issue price.

## II. Re-listed scrips

### Price Bands

Trading shall take place in the TFT segment for the first 10 days with applicable price bands, wherein for the first day -



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- i In case equilibrium price is discovered in the Call Auction, the price band in the normal trading session shall be 5 % of the discovered price.
- ii In case equilibrium price is not discovered in the Call Auction, the scrip shall continue to trade in call auction sessions until price is determined.



**SECTION - 3: IMPLEMENTATION OF UNIFORM SECURITY SPECIFIC ACTION IN STOCK EXCHANGES**

**3.1 Uniform security specific measure<sup>12</sup>**

All stock exchanges shall implement the security specific decisions taken by BSE/NSE such as transferring of scrips from rolling settlement to trade for trade segment and vice-versa, imposition of margins, suspension of trading, etc. in cases where such securities are also listed and traded on those stock exchanges. For this purpose, all the stock exchanges shall obtain the necessary information regularly from the website(s) of BSE/NSE and concurrently implement the security specific decisions taken by BSE/NSE.

In the event of any stock exchange not able to implement the decisions taken by BSE/NSE with regard to particular scrip, such stock exchange(s) shall not make available trading in such scrip in the normal rolling settlement.

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<sup>12</sup> Circular No. SEBI/MRD/SE/Cir- 12/2004 dated February 26, 2004



## SECTION - 4: MARGIN TRADING

### 4.1 Margin trading<sup>13</sup>

1. SEBI vide circular SEBI/MRD/SE/SU/Cir-15/04 dated March 19, 2004 had prescribed framework for permitting stock brokers to provide margin trading facility to their clients. The said framework was revised vide circular SEBI/MRD/SE/SU/Cir-16/04 dated March 31, 2004 and circular MRD/DoP/SE/Cir-08/2005 dated March 04, 2005.
2. Representations have been received from market participants requesting review of margin trading framework to enable greater participation. The suggestions received from market participants were examined and deliberated in the secondary Market Advisory Committee ("SMAC"). Based on the deliberations, the revised framework for Margin Trading Facility are stated as under:

### 4.2 Securities eligible for margin trading

3. Equity Shares that are classified as 'Group I security' as per SEBI Master circular No. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016, shall be eligible for margin trading facility.

#### Margin Requirement

4. In order to avail margin trading facility, initial margin required shall be as under;

Category of Stock	Applicable margin
Group I stocks available for trading in the F & O Segment	VaR + 3 times of applicable ELM*
Group I stocks other than F&O stocks	VaR + 5 times of applicable ELM*

\*For aforesaid purpose the applicable VaR and ELM shall be as in the cash segment for a particular stock.

5. The initial margin payable by the client to the Stock Broker shall be in the form of cash, cash equivalent or Group I equity shares, with appropriate hair cut as specified in SEBI Master circular no. SEBI/HO/MRD/DP/CIR/P/2016/135 dated December 16, 2016.

6. The Stock brokers shall be required to comply with the following conditions:

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<sup>13</sup> Circular No. CIR/MRD/DP/54/2017 dated June 13, 2017



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- i. The stocks deposited as collateral with the stock broker for availing margin trading facility (Collaterals) and the stocks purchased under the margin trading facility (Funded stocks) shall be identifiable separately and no comingling shall be permitted for the purpose of computing funding amount;
- ii. Collateral and Funded stocks shall be marked to market on a daily basis;
- iii. In case of increase in the value of Collaterals, stock brokers may have the option of granting further exposure to their clients subject to applicable haircuts;
- iv. However, no such exposure shall be permitted on the increased value of funded stocks.

7. Stock brokers shall ensure maintenance of the aforesaid margin at all times during the period that the margin trading facility is being availed by the client. In case of short fall, stock broker shall make necessary margin calls.

8. The exchange/stock broker, based on the risk assessment, shall have the discretion to impose/collect higher margin than the margin specified in para-4 above.

### Liquidation of Securities by the Stock Broker in Case of Default by the Client

9. The stock broker shall list out situations/conditions in which the securities may be liquidated and such situations/conditions shall be included in the "Rights and Obligations Document". The broker shall liquidate the securities, if the client fails to meet the margin call to comply with the conditions as mentioned in this circular or specified in the "Rights and Obligations Document" specified by exchange.

10. However, the broker shall not liquidate or use in any manner the securities of the client in any situation other than the conditions stipulated at para-9 above.

### **Eligibility requirements for Stock brokers to provide margin trading facility to clients**

11. Only corporate brokers with a "net worth" of at least Rs.3.00 crore shall be eligible to offer margin trading facility to their clients.

12. The "net worth" for the purpose of margin trading facility shall be as specified in SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992

13. **The broker shall submit to the stock exchange a half-yearly certificate, as on 31st March and 30th September of each year, from an auditor confirming the net**



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**worth. Such a certificate shall be submitted not later than 30<sup>th</sup> April and 31<sup>st</sup> October of every year.**                      Source of Funds

14. Stock brokers may borrow funds by way of issuance of CP and by way of unsecured long term loans from their promoters and directors. The borrowing by way of issuance of CPs shall be subject to compliance with appropriate RBI Guidelines. The borrowing by way of unsecured long term loans from the promoters and directors shall be subject to the appropriate provisions of Companies Act<sup>14</sup>
15. A stock broker shall not be permitted to borrow funds from any other source, except the sources stated at para 14 above.
16. The broker shall not use the funds of any client for providing the margin trading facility to another client, even if the same is authorized by the first client.

### Leverage and Exposure Limits

17. At any point of time, the total indebtedness of a broker for the purpose of margin trading shall not exceed 5 times of his net worth, calculated as per para 12 above.
18. The maximum allowable exposure of the broker towards the margin trading facility shall be within the self-imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50% of his "net worth".
19. While providing the margin trading facility, the broker shall ensure that :
  - a) Exposure to any single client at any point of time shall not exceed 10% of the broker's maximum allowable exposure, as specified in para 17 above.
  - b) Exposure towards stocks purchased under margin trading facility and collateral kept in the form of stocks are well diversified. Stock brokers shall have appropriate Board approved policy in this regard.

### Disclosure Requirement

19. The stock broker shall disclose to the stock exchanges details on gross exposure towards margin trading facility including name of the client, Category of holding (Promoter/promoter group or Non-promoter), clients' Permanent Account Number ("PAN"), name of the scrips (Collateral stocks and Funded stocks) and if the stock broker has borrowed funds for the purpose of providing margin trading facility, name of the lender and amount borrowed, on or before 12 noon on the following trading day. The format for this disclosure by the stock broker to the stock exchange is enclosed at Annexure 1.



20. The stock exchange/s shall disclose the scrip wise gross outstanding in margin accounts with all brokers to the market. Such disclosure regarding margin trading done on any day shall be made available after the trading hours on the following day, through its website. The formats for such disclosure by the stock exchange is enclosed at Annexure 2.
21. The stock exchanges shall also put in place a suitable mechanism to capture and maintain all relevant details including member-wise, client-wise, scrip-wise information regarding outstanding positions in margin trading facility and also source of funds of the stock brokers, on the exchanges both on daily as well as on cumulative basis.

#### Rights and Obligations for Margin Trading

22. The stock exchanges shall frame a Rights and Obligations document laying down the rights and obligations of stock brokers and clients for the purpose of margin trading facility. The Rights and Obligations document shall be mandatory and binding on the Broker/Trading Member and the clients for executing trade in the Margin Trading framework.
23. The broker/exchange may modify the Rights and Obligations document only for stipulating any additional or more stringent conditions, provided that no such modification shall have the effect of diluting any of the conditions laid down in the circular or in the Rights and Obligations document.

#### Maintenance of Records

24. The stock broker shall maintain separate client-wise ledgers for funds and securities of clients availing margin trading facility
25. The stock broker shall maintain a separate record of details of the funds used and sources of funds for the purpose of margin trading.
26. The books of accounts, maintained by the broker, with respect to the margin trading facility offered by it, shall be audited on a half yearly basis. The stock broker shall submit an auditor's certificate to the exchange, within one month from the date of the half year ending 31st March and 30<sup>th</sup> September of a year certifying, inter alia, the extent of compliance with the conditions of margin trading facility. The certificate is in addition to the certificate on net worth specified in para 12 above.

#### Other Conditions

27. A broker shall take adequate care and exercise due diligence before providing margin trading facility to any client.
28. Any disputes arising between the client and the stock broker in connection with the margin trading facility shall have the same treatment as normal trades and





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should be covered under the investor grievance redressal mechanism, arbitration mechanism of the stock exchange.

29. SGF and IPF shall be available for transactions done on the exchange, whether through normal or margin trading facility. However, any losses suffered in connection with the margin trading facility availed by the client from the stock broker shall not be covered under IPF.
30. The stock brokers wishing to extend margin trading facility to their clients shall be required to obtain prior permission from the exchange where the margin trading facility is proposed to be offered. The exchange shall have right to withdraw this permission at a later date, after giving reasons for the same.
31. This circular shall supersede earlier circulars no SEBI/MRD/SE/SU/Cir-15/04 dated March 19, 2004, SEBI/MRD/SE/SU/Cir-16/04 dated March 31, 2004 and MRD/DoP/SE/Cir-08/2005 dated March 04, 2005 on Margin Trading Facility.

## **SECTION - 5: MARKET MAKER**

### **5.1 Guidelines for Market Maker<sup>14</sup>**

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<sup>14</sup> Circular No. SMDRP/POLICY/CIR-04/2000 dated January 20, 2000.



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With the view to infuse liquidity in the market, the concept of market maker was proposed. Since the introduction of electronic trading and “order matching” system in all the stock exchanges there has been a reduction in transaction costs, speedier execution of trades and gains in liquidity. The volumes have risen a hundred fold in respect of many shares. Increase in trading volume on the exchanges, however, has not been reflected always in the liquidity of all the listed shares. There are a large number of shares that are not actively or frequently traded although many of them have some fundamental strength and intrinsic value. The introduction of market making facility for such shares could be a possible means to infuse liquidity in such shares. The guidelines for market maker as provided in the annexure are enumerated below.

### **Annexure**

Over the past several years the securities market has witnessed a sea change. The market has become more modern in terms of infrastructure, adoption of best international practices and introduction of competition. With the maturity of the regulatory framework and increased market surveillance, the market has also become safer and investor is better protected. The extensive reforms introduced by SEBI over the last few years have enhanced the integrity, transparency and efficiency of the operations of the securities market. The introduction of electronic trading and “order matching” system in all the stock exchanges, have led to reduction in transaction costs, speedier execution of trades and gains in liquidity. The, spreads have dropped by a factor of 10 and volumes have risen a hundred fold in respect of many shares. Increase in trading volume on the exchanges, however, has not been reflected always in the liquidity of all the listed shares. There are a large number of shares that are not actively or frequently traded although many of them have some fundamental strength and intrinsic value. The introduction of market making facility for such shares could be a possible means to infuse liquidity in such shares.

In the year 1993 guidelines for the Market Makers were issued vide our circular no. SMD/SED/93/11362 dated August 05, 1993. However, the scheme did not elicit adequate response. With a view to study the concept of “Market Making” and to draft operational procedures for market making, eligibility criteria for Market Makers, risk containment measures, etc., SEBI constituted a Committee on March 24, 1998 under the chairmanship of Shri G P Gupta, then Chairman, UTI and current Chairman and Managing Director of IDBI. The Committee submitted its report to SEBI in August 31, 1999.

The Market Maker would operate under the regulatory framework as envisaged and laid out herewith in these guidelines. The Exchange would act as a SRO for the purposes of monitoring and effective operations of the Market Makers. The Exchanges have been accorded flexibility to make modifications to the scheme to



make it more attractive to the Market Maker to take up commitments under this scheme, however, the terms of selection of scrips, the capital adequacy norms and the risk containment measures such as the price bands and margins would not be altered from those stipulated in these guidelines.

#### **5.1.1 Criterion for selection of scrips for Market Making**

The stock exchanges shall formulate its own benchmarks for selecting the scrips for market making, however, the shares satisfying any of the following criteria would not be eligible for market making :-

- Shares included in the BSE Sensex of the Stock Exchange, Mumbai and the Nifty 50 of the NSE;
- Share where the average number of trades is more than 50;
- Shares where the value of trades on a daily basis is more than Rs.10,00,000/-;
- Shares where the company is not in operation and the Networth erosion is beyond 50%

The list of scrips eligible for market making shall be reviewed by the exchanges so as to shift the scrips from one category to the other, after an observation period of two-three months to ensure permanence in the trend.

The market making would be on a voluntary basis for these shares. But, if Market Maker is not available for such shares, the share will continue to be traded under the existing system.

#### **5.1.2 Exclusivity of Market Makers**

If a share is eligible for market making and Market Makers are available, then, the share would trade only under a quote driven system and all orders must flow through Market Makers.

#### **5.1.3 Number of Market Makers for each share**

There would not be more than five Market Makers in any of the eligible shares on an exchange who will be selected on the basis of objective criteria to be evolved by the Exchange which would include capital adequacy, networth, infrastructure, minimum volume of business etc.

#### **5.1.4 Qualifications for a registered Market Maker**

Any member of the Exchange would be eligible to act as Market Maker provided he meets the criteria laid down by the exchange. The member brokers desirous of acting as Market Maker in the eligible scrips shall apply to the concerned stock exchange for registration as Market Makers.



### **5.1.5 The obligations and responsibilities of Market Makers**

The Market Maker shall fulfil the following conditions to provide depth and continuity in trading the shares:

- (a) The Market Maker shall be required to provide a 2-way quote on a continuous basis;
- (b) The minimum depth of the quote shall be Rs.5,000/- or one market lot whichever is higher;(in case of demat shares, for which there is no market lot, the same market lot as existed in the physical segment would be applicable for this purpose.)
- (c) The quote shall be provided in such a way that the quotes are not absent from the screen for more than 30 minutes at a time;
- (d) Execution of the order on a continuous basis at the quoted price and quantity must be guaranteed by the Market Maker;
- (e) the Market Maker must give commitment to buy and sell shares upto a certain quantity in which they make markets;
- (f) The Market Maker will be eligible to change quotes even if no transaction has been executed at the displayed quote. In any case the obligation of the Market Maker will end at 1% less than the circuit filter limits;
- (g) The Market Maker may compete with other Market Makers for better quotes to the investors;
- (h) Once registered as a Market Maker, he has to start providing quotes within 5 trading days of registration and shall be subject to the guidelines laid down for market making by the exchange.
- (i) Once registered as a Market Maker, he has to mandatorily act in that capacity for a minimum period of three months.

### **5.1.6 Rights of the Market Maker**

The Market Maker has the right to information about the share, in which he is making the market including the availability of trading and financial information, performance of the company in the last three years, etc. on a continuous basis.

### **5.1.7 Voluntary De-registration**

The Market Makers may be allowed to de-register voluntarily from a particular share(s) provided it has fulfilled its obligations for a minimum period of three months and a one-month notice is given to the exchange.

### **5.1.8 Compulsory De-registration**

If a Market Maker fails to fulfil his obligations as a Market Maker for more than three consecutive trading days, he will automatically stand de-registered from that share and may not be permitted to act as a Market Maker for any other security



for a minimum period of three months.

#### **5.1.9 Dissemination of Information**

- a) The exchange should disseminate a list of Market Makers in a share to the public
- b) Exchange should disseminate the price and volume of turnover in shares eligible for market making.

#### **5.1.10 Number of Shares per Market Maker**

The number of companies in whose shares a Market Maker would make market should be linked to his capital adequacy.

#### **5.1.11 Risk Containment Measures and monitoring for Market Makers**

##### **Margins**

All applicable margins should be levied and collected without any waiver/exemption.

##### **Capital Adequacy**

The exchanges would prescribe the capital adequacy requirement for its members commensurate with a number of companies in which Market Maker proposes to make market, the type of shares, and keeping in mind that the Market Maker works against the market and thus bear the brunt of the adverse trend. The monitoring of this requirement would be done by the exchange and any violation of this requirement would be liable for punitive action to be taken by the Disciplinary Action Committee (DAC) of the Exchange, which may also include monetary penalty apart from the trade restriction as decided by the DAC. An exchange may lay down additional criteria also for Market Makers as risk containment measures.

##### **Price Band and Spreads**

There would be no change to the circuit filters or price bands, which are imposed by SEBI from time to time for the shares in which market making is available. The spreads between the bid and ask price would be as follows:-

For shares priced

Upto Rs 10	-	no limit on spreads
>Rs. 10 and upto Rs 20	-	10% maximum spread
>Rs. 20/- and upto Rs.50/	-	5% maximum spread



- >Rs.50/- and upto Rs. 100/ - 4% maximum spread  
>Rs. 100/- - 3% maximum spread

## **5.2 Guidelines for Market Maker on Small and Medium Enterprise (SME) Exchange/ Separate Platform for of existing exchange having nationwide terminal<sup>15</sup>**

SEBI has put in a framework for setting up of new exchange or separate platform of existing stock exchange having nationwide terminals for SME (hereinafter referred to as the 'Exchange/ SME Exchange'). As per the framework, market making has been made mandatory in respect of all scrips listed and traded on SME exchange. The following guidelines shall be applicable to the Market Makers on this exchange.

### **5.2.1 Applicability**

These guidelines are applicable to all the registered Market makers for making market in all scrips listed and traded on SME exchange.

### **5.2.2 Registration of the Market Maker**

Any member of the Exchange would be eligible to act as Market Maker provided the criteria laid down by the exchange are met. The member brokers desirous of acting as Market Maker in this exchange shall apply to the concerned stock exchange for registration as Market Makers unless already registered as a Market Maker.

### **5.2.3 The obligations and responsibilities of Market Makers**

The Market Maker shall fulfil the following conditions to provide depth and continuity on this exchange:

- a) The Market Maker shall be required to provide a 2-way quote for 75% of the time in a day. The same shall be monitored by the stock exchange. Further, the Market Maker shall inform the exchange in advance for each and every black out period when the quotes are not being offered by the Market Maker.
- b) The minimum depth of the quote shall be Rs.1,00,000/- . However, the investors with holdings of value less than Rs 1,00,000 shall be allowed to offer their holding to the Market Maker in that scrip provided that he sells his entire holding in that

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<sup>15</sup>Circular No. MRD/DP/14/2010 dated April 26, 2010 and Circular No. MRD/DSA/14/2010 dated April 26, 2010



scrip in one lot along with a declaration to the effect to the selling broker.

- c) Execution of the order at the quoted price and quantity must be guaranteed by the Market Maker, for the quotes given by him.
- d) There would not be more than five Market Makers for a scrip. These would be selected on the basis of objective criteria to be evolved by the Exchange which would include capital adequacy, networth, infrastructure, minimum volume of business etc.
- e) The Market Maker may compete with other Market Makers for better quotes to the investors;
- f) Once registered as a Market Maker, he has to start providing quotes from the day of the listing / the day when designated as the Market Maker for the respective scrip and shall be subject to the guidelines laid down for market making by the exchange
- g) Once registered as a Market Maker, he has to act in that capacity for a period as mutually decided between the Merchant Banker and the market maker.
- h) Further, the Market Maker shall be allowed to deregister by giving one month notice to the exchange, subject to (g) above.

#### **5.2.4 Dissemination of Information**

The exchange should disseminate the list of Market Makers for the respective scrip to the public.

#### **5.2.5 Number of Shares per Market Maker**

The number of companies in whose shares a Market Maker would make market should be linked to his capital adequacy as decided by the exchange.

#### **5.2.6 Risk Containment Measures and monitoring for Market Makers**

All applicable margins should be levied and collected without any waiver/exemption.

##### **Capital Adequacy**

The exchanges would prescribe the capital adequacy requirement for its members to commensurate with the number of companies which Market Maker proposes to make market. Further, the stock exchange may lay down additional criteria also for Market Makers as risk containment measures. The same shall be monitored by the stock exchange.

##### **Monitoring**



All the requirements with regard to market making shall be monitored by the stock exchange and any violation of these requirements would be liable for punitive action to be taken by the Disciplinary Action Committee (DAC) of the Exchange, which may also include monetary penalty apart from the trade restriction as decided by the DAC under intimation to the Merchant Banker.

### **Price Band and Spreads**

The exchanges shall prescribe the maximum spread between bid and ask price. The exchange, may at its discretion also prescribe the price bands for the same. Further, in case of new issue the spread shall also be specified in the offer document with the prior approval of the exchange

### **5.3 Inventory Management for Market Makers of SME Exchange / Platform<sup>16</sup>**

5.3.1 It has been decided to make applicable, limits on the upper side for market makers during market making process taking into consideration the issue size in the following manner

Issue Size	Buy quote exemption threshold (including mandatory initial inventory of 5% of issue size)	Re-entry threshold for buy quotes (including mandatory initial inventory of 5% of issue size)
Upto 20 Crore	25%	24%
20 Crore to 50 Crore	20%	19%
50 Crore to 80 Crore	15%	14%
Above 80 Crore	12%	11%

5.3.2 Further, the following shall apply to market makers while managing their inventory during the process of market making:

- i. The exemption from threshold shall not be applicable for the first three months of market making and the market maker shall be required to provide two way quotes during this period irrespective of the level of holding.

<sup>16</sup> Circular No.MRD/DSA/31/2012 dated November 27, 2012





- ii. Threshold for market making as prescribed will be inclusive of mandatory inventory of 5% of issue size at the time of allotment in the issue.
- iii. Any initial holdings over and above such 5% of issue size would not be counted towards the inventory levels prescribed.
- iv. Apart from the above mandatory inventory, only those shares which have been acquired on the platform of the exchange during market making process shall be counted towards the Market Maker's threshold.
- v. Threshold limit will take into consideration, the inventory level across market makers.
- vi. The market maker shall give two way quotes till he reaches the upper limit threshold, thereafter he has the option to give only sell quotes.
- vii. Two way quotes shall be resumed the moment inventory reaches the prescribed re-entry threshold.
- viii. In view of the market maker obligation, there shall be no exemption/threshold on downside. However, in the event the market maker exhausts his inventory through market making process on the platform of the exchange, the concerned stock exchange may intimate the same to SEBI after due verification.

## **SECTION - 6: NEGOTIATED DEALS**

### **6.1 Negotiated Deals<sup>17</sup>**

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<sup>17</sup> Circular No. SMDRP/POLICY/CIR-32/99 dated September 14, 1999



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- i. All negotiated deals (including cross deals) **shall not be permitted** except for those which are executed on the screens of the exchanges in the price and order matching mechanism of the exchanges just like any other normal trade. Provided, however, that Foreign Institutional Investors (FIIs) can avail of the provisions of the special bargains on the exchanges in accordance with their bye-laws or obtain suitable exemptions from exchanges for purchases or sales between FIIs in such companies where the ceiling of FII investment of 24% or 30 % as the case may be, has been reached.
- ii. Negotiated deals in listed corporate debt securities shall not be permitted and all such trades will have to be executed on the price and order matching mechanism of the stock exchanges as in the case of equities.
- iii. Government debt securities and money market instruments are under the regulatory jurisdiction of RBI and do not fall within the purview of SEBI. Therefore the aforesaid decision will not apply to such securities.
- iv. Exemptions would also be granted for dis-investment of Public Sector Enterprises by **SEBI on a case to case basis**.<sup>18</sup>
- v. No Exchange shall allow the 'All or None' or 'Minimum Fill' order facility in their trading system.<sup>19</sup>

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<sup>18</sup> Circular No. SMDRP/Policy/Cir-41/2000 dated September 11, 2000

<sup>19</sup> Circular No. SMDRP/POLICY CIR-2/99 dated January 14, 1999



**SECTION - 7: ODD LOT**

**7.1 Trading and Settlement of trades in dematerialised securities<sup>20</sup>**

The stock exchanges should provide an additional trading window, which would give one time facility for small investors to sell physical shares (which are in compulsory demat list) not exceeding 500 shares in number irrespective of their value.

This facility shall be available only to registered holders of shares. The shares standing in the name of individuals/HUF shall alone constitute a good delivery. The selling/delivering member must necessarily be the introducing member. The buyers of the shares shall not be permitted to reintroduce the shares in the market in the physical form. This facility should be made available on all trading days.

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<sup>20</sup> Circular No. SMDRP/Policy/Cir.- 21/99 dated July 08, 1999



## **SECTION - 8: PERMANENT ACCOUNT NUMBER**

### **8.1 Mandatory PAN requirement for transaction in Cash Market<sup>21</sup>**

PAN shall be mandatory for all entities/ persons who are desirous of transacting in the securities market.

The Stock exchanges shall ensure that the members of their exchanges shall;

- i. Collect copies of PAN cards issued to their existing as well as new clients by the Income Tax Department and maintain the same in their record after verifying with the original.
- ii. Cross-check the aforesaid details collected from their clients with the details on the website of the Income Tax Department i.e. <http://incometaxindiaefiling.gov.in/challan/enterpanforchallan.jsp>.
- iii. Upload details of PAN so collected to the Exchanges as part of unique client Code.

### **8.2 PAN as a sole identification number for all transactions in the securities market<sup>22</sup>**

In light of the Hon'ble Finance Minister's announcement in the Union Budget for the year 2007-08, and in order to strengthen the (Know Your Client) KYC norms and identify every participant in the securities market, it has been decided that PAN would be the sole identification number for all participants transacting in the securities market, irrespective of the amount of transaction.

### **8.3 In case of Central and State Govt., and officials appointed by courts<sup>23</sup>**

In the view of Rule 114 C (1)(c) of Income Tax Rules, PAN may not be insisted in the case of securities market transactions undertaken on behalf of Central Government and State Government, and by the officials appointed by the courts e.g. Official liquidator, Court receiver etc. (under the category of Government).

### **8.4. Exemptions for Investors in Sikkim<sup>24</sup>**

In the light of the observations of the Hon'ble High Court of Sikkim in its Order dated March 31, 2006 as forwarded by the Sikkim Chamber of Commerce vide

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<sup>21</sup> Circular No. MRD/DoP/SE/Cir- 8 /2006 dated July 13, 2006

<sup>22</sup> Circular No. MRD/DoP/Cir-05/2007 dated April 27, 2007

<sup>23</sup> Circular No. MRD/DoP/Cir-20/2008 dated June 30, 2008

<sup>24</sup> Circular No. MRD/DoP/Dep/Cir-09/06 dated July 20, 2006



their letter No.See/52/06-07 dated May 11, 2006, the investors residing in the State of Sikkim are exempted from the mandatory requirement of PAN for-

- (a) DP
- (b) Broker
- (c) MF

However, this would be subject to the DP / Broker / MF verifying the veracity of the claim of the investors that they are residents of Sikkim, by collecting sufficient documentary evidence in support of their address as provided in the SEBI Circular No.MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004.

#### **8.5 In case of FIIs/Institutional Clients<sup>25</sup>**

The custodians are advised to verify the PAN details of the institutional clients with the original PAN card and provide copy of such verified PAN details to the brokers duly certified. This would be applicable in respect of institutional clients, namely, FIIs, MFs, VCFs, FVCIs, Scheduled Commercial Banks, Multilateral and Bilateral Development Financial Institutions, State Industrial Development Corporations, Insurance Companies registered with IRDA and Public Financial Institution as defined under section 4A of the Companies Act, 1956.

As regards proof of address of FIIs/sub-accounts, a copy of the Power of Attorney (POA) given by the FIIs/FII sub-accounts to the Custodians (which are duly notarized and/or apostiled or consularised) that gives the registered address of the FIIs/sub-accounts can be accepted as proof of address.

#### **8.6 In case of UN entities and multilateral agencies which are exempted from paying taxes/ filling tax returns in India<sup>26</sup>**

UN entities/ multilateral agencies which are exempt from paying taxes/ filling tax returns in India are exempt from the mandatory requirement of PAN, subject to the DPs collecting documentary evidence in support of such claim of investors.

#### **8.7 In case of HUF, Association of Persons (AoP), Partnership Firm, unregistered Trust, Registered Trust, Corporate Bodies, minors, etc.<sup>27</sup>**

The BO account would be in the name of natural persons, PAN of the respective HUF, AoP, Partnership Firm, Unregistered Trust, etc. shall be obtained.

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<sup>25</sup> Circular No. MRD/DoP/Dep/SE/Cir-13/06 dated September 26, 2006 and Circular No. MRD/DoP/Dep/Cir-09/06 dated July 20, 2006

<sup>26</sup> Circular No. MRD/DoP/Dep/Cir-09/06 dated July 20, 2006

<sup>27</sup> Circular No. MRD/DoP/Dep/Cir-09/06 dated July 20, 2006



As regards Registered Trust, Corporate Bodies and minors, PAN of the respective entities shall be obtained when accounts are opened in their respective names.

**8.8 In case of Slight mismatch in PAN card details as well as difference in maiden name and current name (predominantly in the case of married women) of the investors<sup>28</sup>**

DPs can collect the PAN card proof as submitted by the account holder. However, this would be subject to the DPs verifying the veracity of the claim of such investors by collecting sufficient documentary evidence in support of the identity of the investors as provided in the SEBI Circular No. MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004.

**8.9 In case of NRI/PIOs<sup>29</sup>**

The Directorate of Income Tax (Systems), has issued guidelines, facilitating the citizens of India residing outside India, Foreign citizens and other persons (like companies/ trusts/ firms) having no office of their own in India to obtain PAN based on the copy of their passport as ID proof and a copy of passport/ bank account in the country of residence as address proof.

In the light of the above, the facility of opening a “limited purpose BO/ Trading account” by them without PAN has been withdrawn.

**8.10 PAN requirement for transfer of shares in physical form<sup>30</sup> & <sup>31</sup>**

As regards transfer of shares in physical form of listed companies, for securities market transactions and off-market/ private transactions, it shall be mandatory for the transferee(s) to furnish copy of PAN card to the Company/RTAs for registration of such transfer of shares.

It shall be also be mandatory to furnish a copy of PAN in the following cases –

- a. Deletion of name of the deceased shareholder(s), where the shares are held in the name of two or more shareholders.
- b. Transmission of shares to the legal heir(s), where deceased shareholder was the sole holder of shares.
- c. Transposition of shares – when there is a change in the order of names in which physical shares are held jointly in the names of two or more shareholders.

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<sup>28</sup> Circular No. MRD/DoP/Dep/SE/Cir -09/06 dated July 20, 2006

<sup>29</sup> Circular No. MRD/DoP/Dep/SE/Cir -17/06 dated October 27, 2006

<sup>30</sup> Circular No. MRD/DoP/ Cir-05/2009 dated May 20, 2009

<sup>31</sup> Circular No. SEBI/MRD/DoP/SE/RTA/Cir-03/2010 dated January 07, 2010



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In case of mismatch in PAN card details as well as difference in maiden name and current name (in case of married women) of the investors -

The RTAs can collect the PAN card as submitted by the transferee(s). However, this would be subject to the RTAs verifying the veracity of the claim of such transferee(s) by collecting sufficient documentary evidence in support of the identity of the transferee(s) as provided for at para 2 in the SEBI circular no. MRD/DoP/Dep/Cir-29/2004 dated August 24, 2004 read with SEBI circular no. MRD/DoP/Cir-08/2007 dated June 25, 2007.



## **SECTION - 9: PROPRIETARY TRADING**

### **9.1 Disclosure of Proprietary Trading by Broker to Client<sup>32</sup>**

With a view to increase the transparency in the dealings between the broker and the client, every broker shall disclose to his client whether he does client based business or proprietary trading as well.

- i. The broker shall disclose the aforesaid information to his existing clients within a period of one month from the date of this circular.
- ii. Further, the broker shall disclose this information upfront to his new clients at the time of entering into the Know Your Client agreement.

In case of a broker who at present does not trade on proprietary account, chooses to do so at a later date, he shall be required to disclose this to his clients before carrying out any proprietary trading.

### **9.2 Pro-account Trading Terminal<sup>33</sup>**

Pro-account should be used by the broker to place orders of member of the broking firm. It has been observed that certain members are putting large number of orders on pro-account from various locations rather than using "pro-account" at the terminals located at the corporate office from where the owner / directors normally function. It has further been observed that these trades executed from various locations under "pro-account" are, many a time, transferred subsequently to the respective clients in the back office of the members. This practice is in clear violation of the requirement of putting the orders of clients under the appropriate client code through trading terminals.

In order to prevent any misuse if this facility, if any, stock exchanges should ensure the following:-

- i. Facility of placing orders on "pro-account" through trading terminals shall be extended only at one location of the members as specified / required by the members
- ii. Trading terminals located at places other than the above location shall have a facility to place orders only for and on behalf of a client by entering client code details as required / specified by the Exchange / SEBI.

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<sup>32</sup> Circular no. SEBI/MRD/SE/Cir- 42 /2003 dated November 19, 2003.

<sup>33</sup> Circular no. SEBI/MRD/SE/Cir- 32/2003/27/08 dated August 27, 2003.





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- iii. In case any member requires the facility of using “pro-account” through trading terminals from more than one location, such member shall be required to submit an undertaking to the stock exchange stating the reason for using the “pro-account” at multiple locations and the stock exchange may, on case to case basis after due diligence, consider extending the facility of allowing use of “pro-account” from more than one location.



## **SECTION - 10: SHORT SELLING AND SECURITIES LENDING AND BORROWING SCHEME**

### **10.1 Broad Framework for Short Selling and Securities Lending and Borrowing<sup>34</sup>**

Pursuant to the recommendations of the Secondary Market Advisory Committee (SMAC) of SEBI it was decided to permit all classes of investors to short sell. In order to provide a mechanism for borrowing of securities to enable settlement of securities sold short, it has also been decided to put in place a full-fledged securities lending and borrowing (SLB) scheme for all market participants in the Indian securities market under the over-all framework of "Securities Lending Scheme, 1997" of SEBI. The Securities Lending Scheme was notified by SEBI on February 06, 1997. The guidelines for this facility of short selling and framework for securities lending and borrowing are specified in *Annexure 1 and 2*.

To enable the mechanism of short selling, the facility of securities lending and borrowing (SLB) scheme, was put in place for all market participants, under the overall framework of "Securities Lending Scheme, 1997" of SEBI.

### **10.2 Annexure 1 - Broad framework for short selling**

1. "Short selling" shall be defined as selling a stock which the seller does not own at the time of trade.
2. All classes of investors, viz., retail and institutional investors, shall be permitted to short sell.
3. Naked short selling shall not be permitted in the Indian securities market and accordingly, all investors would be required to mandatorily honour their obligation of delivering the securities at the time of settlement.
4. No institutional investor shall be allowed to do day trading i.e., square-off their transactions intra-day. In other words, all transactions would be grossed for institutional investors at the custodians' level and the institutions would be required to fulfill their obligations on a gross basis. The custodians, however, would continue to settle their deliveries on a net basis with the stock exchanges.
5. The stock exchanges shall frame necessary uniform deterrent provisions and take appropriate action against the brokers for failure to deliver securities at

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<sup>34</sup> Circular No. MRD/DoP/SE/Dep/Cir- 14 /2007 dated December 20, 2007.



the time of settlement which shall act as a sufficient deterrent against failure to deliver.

6. A scheme for Securities Lending and Borrowing (SLB) shall be put in place to provide the necessary impetus to short sell. The introduction of a full-fledged securities lending and borrowing scheme shall be simultaneous with the introduction of short selling by institutional investors.
7. The securities traded in F&O segment shall be eligible for short selling. SEBI may review the list of stocks that are eligible for short selling transactions from time to time.
8. The institutional investors shall disclose upfront at the time of placement of order whether the transaction is a short sale. However, retail investors would be permitted to make a similar disclosure by the end of the trading hours on the transaction day.
9. The brokers shall be mandated to collect the details on scrip-wise short sell positions, collate the data and upload it to the stock exchanges before the commencement of trading on the following trading day. The stock exchanges shall then consolidate such information and disseminate the same on their websites for the information of the public on a weekly basis. The frequency of such disclosure may be reviewed from time to time with the approval of SEBI.

### **10.3 Annexure 2 - Broad framework for securities lending and borrowing**

1. The stock exchanges shall put in place, a full-fledged securities lending and borrowing (SLB) scheme, within the overall framework of "Securities Lending Scheme, 1997" (the scheme), that is open for all market participants in the Indian securities market.
2. To begin with, the SLB shall be operated through Clearing Corporation/Clearing House of stock exchanges having nation-wide terminals who will be registered as Approved Intermediaries (AIs) under the SLS, 1997.
3. The SLB shall take place on an automated, screen based, order-matching platform which will be provided by the AIs. This platform shall be independent of the other trading platforms.



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4. In addition to the scrips on which derivatives contracts are available, scrips that fulfill the following criteria shall be considered eligible for SLB:<sup>35</sup>
  - a. Scrip classified as 'Group I security' as per SEBI circular MRD/DoP/SE/Cir-07/2005 dated February 23, 2005;  
  
AND
  - b. Market Wide Position Limit (MWPL) of the scrip, as defined at para 12 (a) of Annexure 2 of the MRD/DoP/SE/Dep/Cir-14/2007 dated December 20, 2007, shall not be less than Rs.100 crores;  
  
AND
  - c. Average monthly trading turnover in the scrip in the Cash Market shall not be less than Rs.100 crores in the previous six months.
5. Stock exchanges shall review the scrips eligible for SLB on a half-yearly basis. In the event a scrip fails to meet the eligibility criteria, no new SLB transaction shall be allowed in the scrip from the next trading day. However, the existing contracts in such scrips shall be allowed to continue till expiry.<sup>36</sup>
6. All categories of investors including retail, institutional etc. will be permitted to borrow and lend securities. The borrowers and lenders shall access the platform for lending/borrowing set up by the AIs through the clearing members (CMs) (including banks and custodians) who are authorized by the AIs in this regard.
7. The Authorised Intermediary (AIs) shall enter into an agreement with Clearing Members (CMs) for the purpose of facilitating lending and borrowing of securities. The agreement shall specify the rights, responsibilities and obligations of the parties to the agreement. The agreement shall include the basic conditions for lending and borrowing of securities as prescribed under SLB framework. Further, the exact role of AIs/CMs vis-à-vis the clients shall be laid down in the agreement. AIs shall ensure that there shall not be any direct agreement between the lender and the borrower. In addition to that, AIs may also include suitable conditions in the agreement to have proper execution, risk management and settlement of lending and borrowing transactions with clearing member and client. The AIs shall frame a rights and obligations document laying down the rights and obligation of CMs and clients for the purpose of lending and borrowing of

<sup>35</sup> Amended vide Circular No. MRD/DP/18/2013 dated May 30, 2013.

<sup>36</sup> Circular No. MRD/DP/18/2013 dated May 30, 2013.



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securities. The rights and obligation document shall be mandatory and binding on the CMs and the clients for executing trade in the SLB framework.<sup>37</sup>

8. The AIs shall allot a unique ID to each client which shall be mapped to the Permanent Account Number (PAN) of the respective clients. The AIs shall put in place appropriate systemic safeguards to ensure that a client is not able to obtain multiple client IDs.
9. The tenure of contracts in SLB may be upto a maximum period of 12 months. The Approved Intermediary (Clearing corporation/ Clearing House) shall have the flexibility to decide the tenure (maximum period of 12 months).<sup>38</sup> In this regard, it is clarified that AIs can introduce contracts of different tenures ranging from 1 day to 12 months based on the need of the market participants.<sup>44</sup>
10. The settlement cycle for SLB transactions shall be on T+1 basis. The settlement of lending and borrowing transactions shall be independent of normal market settlement.
11. The settlement of the lending and borrowing transactions shall be done on a gross basis at the level of the clients i.e. no netting of transactions at any level will be permitted.
12. AIs would frame suitable risk management systems to guarantee delivery of securities to borrower and return of securities to the lender. In the case of lender failing to deliver securities to the AI or borrower failing to return securities to the AI, the AI shall conduct an auction for obtaining securities. In the event of exceptional circumstances resulting in non-availability of securities in auction, such transactions would be financially closed-out at appropriate rates, which may be more than the rates applicable for the normal close-out of transactions, so as to act as a sufficient deterrent against failure to deliver securities.
13. Position limits shall be as under:<sup>39</sup>
  - i. The market wide position limit for SLB transactions shall be 10% of the free-float capital of the company in terms of number of shares;

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<sup>37</sup> Circular No. SEBI/MRD/DP/19/2014 dated June 03, 2014

<sup>38</sup> Circular No. SEBI/MRD/DoP/SE/Dep/Cir- 01 /2010 dated January 06, 2010

<sup>39</sup> Circular No. CIR/MRD/DP/122/2017 dated November 17, 2017



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- ii. No clearing member shall have open position of more than 10% of the market wide position limit. The position limit for an Institutional Investor shall be the same as that for a clearing member;
  - iii. The client level position limit shall not be more than 1% of the market wide position limit.
14. There shall be no lending/borrowing activity during the periods of corporate action in the security and shall be disclosed by AI to the market.
15. Details of treatment of corporate actions during the contract tenure, such as Dividend, stock split etc., are specified as below:<sup>40</sup>
  - a. Dividend: The dividend amount would be worked out and recovered from the borrower on the book closure/ record date and passed on to the lender.<sup>41</sup>
  - b. Stock split: The positions of the borrower would be proportionately adjusted so that the lender receives the revised quantity of shares.
  - c. Other corporate actions such as bonus/ merger/ amalgamation / open offer etc.: The contracts would be foreclosed on the Ex-date. The lending fee would be recovered on a pro-rata basis from the lender and returned to the borrower.
  - d. AGM/EGM: In the event of the corporate actions which is in nature of AGM/EGM, presently the AIs are mandatorily foreclosing the contracts. It has been represented by market participants that mandatory foreclosure during the life of the contract may not be necessary as, all lenders may not be interested in taking part in the AGM/EGM. It has therefore been decided that the AIs shall provide the following facilities to the market participants:
    - i. Contracts which shall continue to be mandatorily foreclosed in the event of AGM/EGM.
    - ii. Contracts which shall not be foreclosed in the event of AGM/EGM.
16. Any borrowing/lending and return of securities would not amount to purchase/disposal/transfer of the same for the purpose of compliance with

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<sup>40</sup> Circular No. CIR/MRD/DP/122/2017 dated November 17, 2017

<sup>41</sup> Circular No. CIR/MRD/DP/ 33 /2010 dated October 07, 2010



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the extant FDI/FII limits and the norms regarding acquisition of shares/disclosure requirements specified under the various Regulations of SEBI.

17. Adequate systems shall be put in place by the stock exchanges/Depositories to distinguish the SLB transactions from the normal market transactions in the demat system.
18. AIs shall provide suitable arbitration mechanism for settling the disputes arising out of the SLB transactions executed on the platform provided by them.
19. AIs shall disseminate in public domain, the details of SLB transactions executed on the platform provided by them and the outstanding positions on a weekly basis. The frequency of such disclosure may be reviewed from time to time with the approval of SEBI.
20. With a view to facilitate physical settlement of equity derivatives contracts, it has been decided to permit Stock exchanges to set their trading hours in the SLB Segment, subject to the condition that:<sup>42</sup>
  - a. The trading hours are between 9 AM and 5 PM, and
  - b. The Exchange/Clearing Corporation has in place risk management system and infrastructure commensurate to the trading hours
21. Risk Management
  - a. With regard to risk management in SLB, it is advised that common risk management practices shall be followed by stock exchanges for SLB. It is reiterated that the exchanges should ensure that the risk management framework strikes a balance between ensuring commercial viability of SLB transactions and ensuring adequate and proper risk management. Exchanges should satisfy themselves regarding the adequacy of the risk management system.
  - b. The collateral to be accepted for meeting margin obligations related to SLB transactions shall be in the same form as applicable in the Cash Market.<sup>43</sup>

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<sup>42</sup> Circular No. SEBI/CIR/MRD/DoP-1/P/125/2018 dated August 24, 2018

<sup>43</sup> Circular No. MRD/DF/18/2013 dated May 30, 2013.



22. The lender / borrower shall be provided with a facility for early recall / repayment of shares.<sup>44</sup>
23. In case the borrower fails to meet the margin obligations, the Approved Intermediary (AI) shall obtain securities and square off the position of such defaulting borrower, failing which there shall be a financial close-out.
24. In case lender recalls the securities any time before completion of the contract, the AI on a best effort basis shall try to borrow the security for the balance period and pass it onward to the lender. The AI will collect the lending fee from the lender who has sought early recall.
25. In case of early recall by the lender, the original contract between the lender and the AI will exist till the contract with the new lender for the balance period is executed and the securities returned to the original lender.
26. In case of early repayment of securities by the borrower, the margins shall be released immediately on the securities being returned by the borrower to the AI. The AI shall on a best effort basis, try to onward lend the securities and the income arising out of the same shall be passed on to the borrower making the early repayment of securities.
27. In case AI is unable to find a new borrower for the balance period, the original borrower will have to forego lending fee for the balance period.
28. In case of early recall by lender or early repayment of securities by borrower, the lending fee for the balance period shall be at a market determined rate.

#### **10.4 Operationalisation of Short Selling and Securities Lending and Borrowing<sup>45</sup>**

The broad framework for short selling by institutional investors and a full-fledged securities lending and borrowing scheme for all market participants were operationalised with effect from April 21, 2008.

#### **10.5 Introduction of roll-over facility<sup>46</sup>**

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<sup>44</sup> Circular No. SEBI/MRD/DoP/SE/Cir-01/2010 dated January 06, 2010

<sup>45</sup> Circular No. MRD/DoP/SE/Cir-05/2008 dated March 19, 2008

<sup>46</sup> Circular No. CIR/MRD/DP/30/2012 dated November 22, 2012





10.5.1 Any lender or borrower who wishes to extend an existing lent or borrow position shall be permitted to roll-over such positions i.e. a lender who is due to receive securities in the pay out of an SLB session, may extend the period of lending. Similarly, a borrower who has to return borrowed securities in the pay-in of an SLB session, may, through the same SLB session, extend the period of borrowing. The roll-over shall be conducted as part of the SLB session.

10.5.2 The total duration of the contract after taking into account rollovers shall not exceed 12 months from the date of the original contract. It is clarified that multiple rollovers of a contract by the lender or borrower is permitted.<sup>47</sup>

10.5.3 Rollover shall not permit netting of counter positions, i.e. netting between the 'borrowed' and 'lent' positions of a client.

## **10.6 Introduction of Liquid Index Exchange Traded Funds (ETFs) under the SLB scheme**

10.6.1 Liquid Index ETFs shall be eligible for trading in the SLB segment.

10.6.2 For the purposes of this circular, an Index ETF shall be deemed 'liquid' provided the Index ETF has traded on at least 80% of the days over the past 6 months and its impact cost over the past 6 months is less than or equal to 1%.

10.6.3 Positions limits for SLB in respect of ETFs shall be based on the assets under management of the respective ETF.

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<sup>47</sup> Modified vide Circular No. CIR/MRD/DP/122/2017 dated November 17, 2017



**SECTION - 11: SPOT AND OFF-THE-FLOOR TRANSACTIONS<sup>48</sup>**

**11.1 Spot and Off-the-Floor transactions**

With regard to reporting of transaction both spot and off-the floor:

- i. Brokers are required to report all transactions done on a spot basis on the same day to the exchange.
- ii. Brokers are required to report on the same day all transactions adjusted in their books -whether between two clients or whether between a client and the broker as a principal to the exchange.

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<sup>48</sup> Circular No. SMD/RCG/CIR/(BKG)/293/95 dated March 14, 1995



**SECTION - 12: SECURITIES TRANSACTION TAX**

**12.1 Implementation of Securities Transaction Tax<sup>49</sup>**

As per Union Budget for 2004-2005 Securities Transaction Tax (STT) shall be levied on all transactions done on the stock exchange.

The stock exchanges have been entrusted with the responsibility of levying, collection and remittance of the STT on all transactions from the date of notification by the Government of India. The Government of India will have to ensure the necessary systems and procedures are put in place for proper implementation as per STT rules, September 28, 2004, notified by the government.

No stock exchange shall permit trading activity unless it implements necessary software and procedures for the levy, collection and remittance of STT and that the MDs/EDs/ Administrators of the respective exchanges certify to the effect that necessary systems and procedures are in place for the said purpose.

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<sup>49</sup> Circular No. MRD/DoP/SE/Cir-28/2004 dated August 23, 2004



**SECTION - 13: TIME STAMPING OF ORDERS**

**13.1 Time Stamping of Orders<sup>50</sup>**

Broker member(s) have to maintain record of time when the client places the order and reflect the same in contract note along with the time of execution of the order.

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<sup>50</sup> Circular No. SMD/POLICY/IECG/ 1 - 97 dated February 11, 1997



## SECTION - 14: TRADING IN GOVERNMENT SECURITIES

### 14.1 Government Securities<sup>51</sup>

Trading in government securities can be done in demat using Subsidiary General ledger (SGL), by entities who have an account with the RBI. These entities are allowed to open Constituent Subsidiary General Ledger (CSGL) accounts on behalf of their client in order to facilitate trading of government securities in the demat form. RBI has mentioned in detail steps for eliminating trading of government securities in the physical form.

Reserve Bank of India has been encouraging holding of government securities in the dematerialized mode in the following ways:

- All entities having a Subsidiary General Ledger (SGL) account with RBI are allowed to open Constituent Subsidiary General Ledger (CSGL) accounts on behalf of their clients.
- Although being non-banks, depositories (NSDL/CDSL) and organisations such as SHCIL have been provided an additional SGL account to open CSGL accounts on behalf of their clients.
- The cost of postage incurred by the depositories on remitting interest and redemption proceeds is being reimbursed by RBI so as to encourage dematerialized holding and retail participation in Gilts.
- Guidelines have been issued to the banks prescribing the safeguards to be adopted for maintenance of CSGL accounts.

To impart transparency in government securities traded by clients (through CSGL accounts), a special feature has been incorporated in the Negotiated Dealing System (NDS) for reporting and settlement of such trades. Provision has also been made in the NDS for giving quotes on behalf of clients i.e. CSGL account holders.

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<sup>51</sup> Circular No. SMDRP/POLICY/CIR-14/2002 dated June 25, 2002



## SECTION - 15: UNIQUE CLIENT CODE

### 15.1 Unique Client Code<sup>52</sup>

It shall be mandatory for the broker to use unique client code for all clients. For this purpose the broker shall collect and maintain in their back office the Permanent Account Number (PAN) allotted by the Income Tax Department for all their clients.

In case of other entities -

1. Brokers shall verify the documents with respect to the unique code retain a copy of the document.
2. The brokers shall also be required to furnish the above particulars of their clients to the stock exchanges/clearing corporations and the same would be updated on a monthly basis. Such information for a specific month should reach the exchange within 7 working days of the following month.<sup>53</sup>
3. The stock exchanges shall be required to maintain a database of client details submitted by brokers. Historical records of all quarterly submissions shall be maintained for a period of 7 years by the exchanges.

### 15.2 Unique Client Code for Mutual Funds and FIIs<sup>54</sup>

MFs and the FIIs shall enter the unique client codes pertaining to the parent MF and parent FII at the order entry level and do allocation to the individual schemes of the MFs and sub-accounts of the FIIs in the post-closing session.

### 15.3 Modification of Client Codes of Non-institutional Trades Executed on Stock Exchanges (All Segments)

#### 15.3.1 Modification of Client Codes

Stock Exchanges may allow modifications of client codes of non-institutional trades only to rectify a genuine error in entry of client code at the time of placing / modifying the related order in all segments (derivatives as well as cash).

The following shall be classified as genuine errors for the purpose of client code modification:

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<sup>52</sup> Circular No. SMDRP/Policy/CIR-39/2001 dated July 18, 2001

<sup>53</sup> Circular no. SEBI/MRD/SE/Cir-34 /2003/29/09 dated September 29, 2003

<sup>54</sup> Circular No. SEBI/SMD/SE/11/2003/31/03 dated March 31, 2003 and Circular No. MRD/DoP/SE/Cir- 35/2004 dated October 26, 2004



- a. Error due to communication and/or punching or typing such that the original client code/name and the modified client code/name are similar to each other.
- b. Modification within relatives ('Relative' for this purpose would mean as defined under Companies Act, 1956).

If a Stock Exchange wishes to allow trading members to modify client codes of non-institutional trades, it shall:

- a. Set up a mechanism to monitor that the trading members modify client codes only to rectify a genuine error.
- b. Ensure that modification of client codes is covered in the internal audit of trading members prescribed by SEBI through its circular No. MRD/DMSCir-29/2008 dated October 21, 2008.

### 15.3.2 Penalty Structure

- i. The Stock Exchanges shall levy a penalty from trading members and credit the same to its Investor Protection Fund as under:

'a' as % of 'b'	Penalty as % of 'a'
≤ 5	1
> 5	2

Where,

a = Value (turnover) of non-institutional trades where client codes have been modified by a trading member in a segment during a month.

b = Value (turnover) of non-institutional trades of the trading member in the segment during the month.

- ii. The Stock Exchange shall conduct a special inspection of the trading member to ascertain whether the modifications of client codes are being carried out only to rectify genuine errors as mentioned above, if 'a' as a % of 'b', as defined above, exceeds 1% during a month and take appropriate disciplinary action, if any deficiency is observed.
- iii. Exemption from penalty: Shifting of trades to the error account of broker would not be treated as modification of client code, provided the trades in error account are subsequently liquidated in the market and not shifted to some other code.



Further, brokers shall disclose the codes of accounts which are classified as 'error accounts' to the Exchanges. Each broker should have a well-documented error policy approved by the management of the broker. Exchanges shall periodically review the trades flowing to the error accounts of the brokers.

SEBI shall examine implementation of the provisions mentioned above under Section 12.8 during inspection of the Stock Exchanges.

### **15.3.3 Waiver of Penalty<sup>55</sup>**

- i. Stock exchanges may waive penalty for a client code modification where stock broker is able to produce evidence to the satisfaction of the stock exchange to establish that the modification was on account of a genuine error.
- ii. Not more than one such waiver per quarter may be given to a stock broker for modification in a client code. Explanation: If penalty waiver has been given with regard to a genuine client code modification from client code AB to client code BA, no more penalty waivers shall be allowed to the stock broker in the quarter for modifications related to client codes AB and BA.
- iii. Proprietary trades shall not be allowed to be modified as client trade and vice versa.
- iv. Stock exchanges shall submit a report to SEBI every quarter regarding all such client code modifications where penalties have been waived.

Stock exchanges shall undertake stringent disciplinary actions against stock brokers who undertake frequent client code modifications.

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<sup>55</sup> Circular no. CIR/MRD/DP/29/2014 dated October 21, 2014





**SECTION - 16: TRANSACTION CHARGES BY THE STOCK EXCHANGES.<sup>56</sup>**

- 16.1** Transaction charges are being levied by the stock exchange on the trades executed on their trading platform.
- 16.2** Stock exchanges, while revising such transaction charges, are advised to ensure that:
- a) The stock exchange system is capable of handling additional load.
  - b) It does not affect the existing risk management system.
  - c) It does not favour selective trades or selective category of investor.
  - d) It does not encourage generation of artificial demand.
  - e) It does not result in any market irregularities.
  - f) It is uniformly applied to trades of similar nature.
  - g) It is imposed in fair and transparent manner.

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<sup>56</sup> Circular No MRD/DoP/SE/Cir-14/2009 dated October 14, 2009



**SECTION - 17: PRESERVATION OF RECORDS<sup>57</sup>**

- 17.1** In supersession to SEBI circular no. SEBI/MRD/SE/Cir-15/2005 dated August 4, 2005 and SEBI/MRD/SE/Cir-23/05 dated December 22, 2005, Rules 14 and 15 of Securities Contracts (Regulation) Rules, 1957, require every recognized stock exchange and its members to maintain and preserve the specified books of account and documents for a period ranging from two years to five years. As per regulation 18 of SEBI (Stock Brokers & Sub-brokers) Regulations, 1992, every stock broker shall preserve the specified books of account and other records for a minimum period of five years. In case such documents are maintained in electronic form, provisions of Information Technology Act, 2000 in this regard shall be complied with.
- 17.2** Further, enforcement agencies like CBI, Police, Crime Branch etc. collect copies of the various records/ documents during the course of their investigation. Therefore if a copy is taken by such enforcement agency either from physical or electronic record then the respective original is to be maintained till the trial or investigation proceedings have concluded.

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<sup>57</sup> Circular No MRD/DoP/SE/Cir- 21 /2009 dated December 9, 2009



**SECTION - 18: CALL AUCTION**

**18.1 Call Auction in Pre-Open Session<sup>58</sup>**

1. The issue regarding call auction and its use in various session, including pre-open session was deliberated in Secondary Market Advisory Committee (SMAC). Based on the recommendation of the committee and proposal received from the stock exchanges, it has been decided to introduce call auction mechanism in pre-open session.
2. To begin with, pre-open session shall be introduced on a pilot basis by BSE and NSE for the scrips forming part of Sensex and Nifty. The list of scrips is placed at annexure 'A'. In case of any change in the composition of Sensex and Nifty, pre-open session shall be introduced for such incoming scrips. Pre-open session shall also continue for the scrips moving out of Sensex and Nifty, though they will not be reckoned for the computation of the index.
3. With effect from April 1, 2013 pre-open call auction session shall be applicable to all exchanges with active trading and for all scrips that are not classified as illiquid as per para 18.3 (1.2).<sup>59</sup>
4. The pre-open session shall be for a duration of 15 minutes i.e. from 9:00 a.m. to 9:15 a.m., out of which 8 minutes shall be allowed for order entry, order modification and order cancellation, 4 minutes for order matching and trade confirmation and the remaining 3 minutes shall be the buffer period to facilitate the transition from pre-open session to the normal market.
5. The session shall close randomly during last one minute of order entry i.e. anytime between 7th and 8th minute of the order entry. Such random closure shall be system driven.
6. Limit orders and market orders shall be entered during the pre-open session and both shall be reckoned for computation of equilibrium price. No iceberg order will be allowed i.e orders shall be disclosed in full quantity.
7. Price band of 20% shall be applicable on the securities during pre-open session.
8. With effect from April 1, 2013 price bands in pre-open session shall be as applicable in the normal market.

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<sup>58</sup> Circular No. CIR/MRD/DP/21/2010 dated July 15, 2010

<sup>59</sup> Circular No. CIR/MRD/DP/ 6/2013 dated February 14, 2013



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9. In case the index breaches the prescribed threshold limit upon the closure of pre-open session, the procedure as prescribed in SEBI Circular Ref. No. SMDRPD/Policy/Cir-37 /2001 dated June 28, 2001 shall be applicable from the time continuous normal market opens.
10. The equilibrium price shall be the price at which the maximum volume is executable. In case more than one price meets the said criteria, the equilibrium price shall be the price at which there is minimum order imbalance quantity (unmatched order quantity). The absolute value of the minimum order imbalance quantity shall be taken into consideration.

Further, in case more than one price has same minimum order imbalance quantity, the equilibrium price shall be the price closest to the previous day's closing price. In case the previous day's closing price is the mid-value of a pair of prices which are closest to it, then the previous day's closing price itself shall be taken as the equilibrium price. In case of corporate action, previous day's closing price shall be the adjustable closing price or the base price.

Explanation: A scenario may arise, wherein; more than one price may have same minimum imbalance quantity. Example on the same is given hereunder:

Price	Buy (Qty)	Cum. Buy Qty	Sell (Qty)	Cum. Sell Qty	Unmatched Quantity	Vol. tradable
106		0	3000	8000	-8000	0
103	2000	2000	3000	5000	-3000	2000
96	3000	5000	1000	2000	3000	2000
94	1500	6500	1000	1000	5500	1000
92	2000	8500		0	8500	0
90	1000	9500		0	9500	0

In the said example 103 and 96 are the prices wherein, the volume tradable and unmatched quantity is the same. To derive the equilibrium price, the said prices i.e. 103 and 96 which is closest to the previous day's closing price shall be considered. In case the previous day's closing price is 95, then, 96 may be



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considered as the equilibrium price. In case the previous day's closing price is 105, then, 103 may be considered as the equilibrium price. In case the previous day's closing price is 99.5 which is the mid-value of 103 and 96, then the equilibrium price shall be the previous day's closing price i.e. 99.5.

11. Pursuant to the discovery of price in the pre-open session, at the time of order execution, limit orders shall be given priority over market orders. The sequence for executing orders is given below:
  - a) Eligible Limit orders shall be matched with eligible limit orders.
  - b) Residual eligible limit orders shall be matched with market orders.
  - c) Market orders to be matched with market orders.
12. In case of pending unmatched orders in pre-open session, they shall be shifted to the order book of the normal market following time priority. Unmatched market orders will shift to the normal market order book as limit orders at a price as discovered in the pre-open session.
13. In case the equilibrium price is not discovered in the pre-open session<sup>60</sup>:
  - a) Wherein, there are only market orders, the market orders shall be matched at previous day's close price and all unmatched market orders shall be shifted to the order book of the normal market at previous day's close price following time priority. Previous day's close price shall be the opening price.
  - b) Wherein, there are no market orders to be matched, all unmatched market orders (at previous day's close price) and limit orders shall be shifted to the order book of the normal market following price time priority.
14. The current risk management system for cash market shall be applicable to pre-open session.
15. All orders shall be checked for margin sufficiency at order level for inclusion in pre-open session.
16. The following information shall be disseminated during pre-open session:
  - a) Indicative equilibrium price of the scrip
  - b) Indicative cumulative buy and sell quantity of the scrip
  - c) Indicative Index
17. This framework for call auction shall be reviewed after 3 months from the commencement of the pre-open session.

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<sup>60</sup> Circular No. CIR/MRD/DP/32/2010 dated September 17, 2010



18. The Stock Exchanges shall issue the necessary guidelines in this regard and shall put in place the necessary systems to ensure the operationalization of the above.

## **18.2 Call Auction in Pre-open session for Initial Public Offering (IPO) and Re- listed scrips<sup>61</sup>**

### **1. Duration of Session**

The session shall be for a duration of 60 minutes i.e. from 9:00 a.m. to 10:00 a.m., out of which 45 minutes shall be allowed for order entry, order modification and order cancellation, 10 minutes for order matching and trade confirmation and the remaining 5 minutes shall be the buffer period to facilitate the transition from pre-open session to the normal trading session.

The session shall close randomly during last one minute of order entry i.e. anytime between 44th and 45th minute of the order entry. Such random closure shall be system driven.

### **2. Eligible Scrips**

#### **I. IPO scrips on the first day of trading**

##### **a. Price Bands**

There shall be no price bands in the pre-open session.

##### **b. Market Orders**

Market orders shall not be accepted in pre-open session.

##### **c. Matched Orders**

For matched orders the provisions of SEBI circulars and letter mentioned at para 1 above shall apply.

##### **d. Un-matched orders**

All outstanding orders will be moved to the normal trading session at their Limit price.

#### **II. Re-listed Scrips**

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<sup>61</sup> Circular No. CIR/MRD/DP/01/2012 dated January 20, 2012



a. Price Bands

There shall be no price bands for re-listed scrips during pre-open session.

b. Market Orders

Market orders shall not be accepted in the pre-open session.

c. Matched Orders

For matched orders the provisions of SEBI circulars and letter mentioned at para 1 above shall apply.

d. Un-matched orders

- i. In case equilibrium price is discovered, all outstanding orders shall be moved to the normal trading session at their limit price.
- ii. In case equilibrium price is not discovered, all orders shall be cancelled and the scrip shall continue to trade in call auction mechanism until price is determined.

3. Risk Management – For IPO scrips with an issue size greater than Rs 250 cr the risk management provisions as prescribed vide SEBI circular dated July 15, 2010 and letter dated September 17, 2010 shall remain applicable for pre-open session. For IPO scrips with issue size upto Rs 250 cr and Re-listed scrips it is advised that margins shall be checked and blocked for 100% of the order value at the order level itself before considering the order eligible for inclusion in pre-open session.

4. The date of commencement of pre-open session for all eligible scrips shall be uniform between both the stock exchanges.

### **18.3 Introduction of Periodic Call Auction for Illiquid Scrips<sup>62</sup>**

1. Periodic Call Auction for Illiquid scrips

1.1 Trading in illiquid scrips in the equity market shall be conducted only through periodic call auction sessions.

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<sup>62</sup> Circular No. CIR/MRD/DP/6/2013 dated February 14, 2013 and Circular No. CIR/MRD/DP/38/2013 dated December 19, 2013



- 1.2 Criteria for illiquidity –A scrip which trades in the normal market and is not shifted to trade for trade settlement, shall be classified as illiquid on a stock exchange if the following conditions are met:
- 1.2.1 Average daily turnover of less than Rs. 2 lakhs calculated for previous two quarters and
  - 1.2.2 The scrip is classified as illiquid at all exchanges where it is traded.
- 1.3 Of the scrips identified as per above criteria, scrips which satisfy any of the following conditions shall be excluded:
- 1.3.1 Scrips with average market capitalization more than Rs. 10Cr.
  - 1.3.2 Scrips where company is paying dividend in at least two out of last three quarters.
  - 1.3.3 Scrips where company is profitable in at least 2 out of last 3 years, and not more than 20% of promoters shareholding is pledged in the latest quarter and book value is 3 times or more than the face value.
- 1.4 Entry into periodic call auction mechanism – Stock exchanges shall identify illiquid scrips at the beginning of every quarter and move such scrips to periodic call auction
- 1.5 Exit from periodic call auction mechanism – Stock exchanges shall move scrips from periodic call auction mechanism to normal trading session if the following criteria are met:
- 1.5.1. The scrip has remained in periodic call auction for at least one quarters
  - 1.5.2. It is not classified as illiquid as per para 1.2
- 1.6 Notice to market – For entry and exit of scrips in the call auction mechanism, a notice of two trading days shall be given to the market.
- 1.7 Number of auction sessions – Stock Exchange may determine the number of call auction session for illiquid stocks. However in order have minimum trading sessions and uniform closing session, there shall be at least 2 sessions in a trading day with one uniform closing session across the exchanges.
- 1.8 Session duration - The call auction session duration shall be one hour, of which 45 minutes shall be allowed for order entry, order modification and order cancellation, 8 minutes shall be for order matching and trade confirmation and remaining 7 minutes shall be a buffer period for closing the current session and facilitating the transition to next session. The session





shall close randomly during last one minute of order entry between the 44th & 45th minute. Such random closure shall be system driven.

- 1.9 Order Placement- The orders may remain valid throughout the trading day and un-matched orders remaining at the end of a call auction session may be moved into next call auction session.
- 1.10 Price band - A maximum price band of 20% shall be applicable on the scrips through the day. Exchanges may reduce the price bands uniformly based on surveillance related concerns.
- 1.11 If the Market wide Index Circuit Breaker gets triggered at any time during the periodic call auction session, the session shall be cancelled and all orders shall be purged. The periodic call auction session shall be resumed at the nearest half hour after the normal market resumes.
- 1.12 Penalty for certain trades - In the event where maximum of buy price entered by a client (on PAN basis) is equal to or higher than the minimum sell price entered by that client and if the same results into trades, a penalty shall be imposed on such trades. The penalty shall be calculated and charged by the exchange and collected from trading members on a daily basis. Trading members may recover such penalty from clients. The penalty so collected shall be deposited to Investor Protection Fund. Penalty for each such instance per session will be higher of the following:
  - a. 0.50% of the trade value for sale and 0.50% of trade value for the buy, resulting in 1% penalty for the client on PAN basis.OR
  - b. 2500/- for the buy trade and 2500/- for the sell trade, resulting in penalty of 5000/- for the client on PAN Basis.

#### **18.4 Introduction of Call Auction stocks having derivative contracts prior to undergoing scheme of arrangement / corporate restructuring<sup>63</sup>**

1. Stock exchanges should conduct one-hour pre-open call auction session, for all stocks in following cases:
  - i. Corporate Restructuring: Merger, demerger, amalgamation, capital reduction / consolidation, scheme of arrangement, in terms of the Companies Act and/or as sanctioned by the Courts, in cases of rehabilitation packages

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<sup>63</sup> Circular No. CIR/MRD/DP/01/2012 dated January 20, 2012



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- approved by the Board of Industrial and Financial Reconstruction under Sick Industrial Companies Act and in cases of Corporate Debt Restructuring (CDR) packages by the CDR Cell of the RBI.
- ii. Securities that are being admitted to trading from another exchange by way of direct listing / MOU / securities admitted for trading under permitted category.
  - iii. Where suspension of trading is being revoked after more than one year.
2. Accordingly with regard to stocks on which derivative products are available prior to cases mentioned at para 1(i) and 1(ii) above, the following shall be ensured:
- i. Order-level risk management in the one-hour call auction session shall be as applicable to 're-listed scrips' in terms of para 5 of the SEBI circular
  - ii. All unmatched orders of the 1-hour call auction session that fall within the  $\pm 10\%$  (dynamic price band) of discovered price shall be moved to the normal trading session at their limit price. In case equilibrium price is not discovered, all orders shall be cancelled and the stock shall continue to trade in call auction sessions on the first day until price is determined.
  - iii. In the normal continuous trading session, such stocks shall be subject to the price band framework as applicable to other stocks on which derivatives contracts are available.
  - iv. The requirement of trading to take place in the TFT segment for the first 10 days shall not apply to aforementioned stocks.
  - v. Trading of derivatives contracts on such stock shall start at 10:00 a. m. after completion of the one-hour call auction session of the underlying stock in the Cash Market.



**SECTION - 19: RECONCILIATION OF SHARE CAPITAL AUDIT (Earlier Secretarial Audit) <sup>64</sup>**

All the issuer companies shall subject themselves to a “Reconciliation of Share Capital audit”<sup>65</sup> to be undertaken by a qualified Chartered Accountant or a Company Secretary, for the purposes of reconciliation of the total admitted capital with both the depositories and the total issued and listed capital.

The audit shall cover the following aspects and certify among others:

- a. That the total of the shares held in NSDL, CDSL and in the physical form tally with the issued / paid-up capital.
- b. That the Register of Members (RoM) is updated.
- c. That the dematerialisation requests have been confirmed within 21 days and state the shares pending confirmation for more than 21 days from the date of requests and reasons for delay.
- d. The details of changes in share capital (due to rights, bonus, preferential issue, IPO, buyback, capital reduction, amalgamation, de-merger etc) during the quarter and certify in case of listed companies whether in-principle approval for listing from all stock exchanges was obtained in respect of all further issues.

The issuer companies shall submit the audit report on a quarterly basis within 30 days from the end of each quarter to the stock exchange/s where they are listed. Any difference observed in the admitted, issued and listed capital shall be immediately brought to the notice of SEBI and both the Depositories by the stock exchanges. This report shall also be placed before the Board of Directors of the issuer company.

**Submission of Audit Report<sup>66</sup>**

The stock exchanges are advised as under:

- a) To draw the attention of the listed companies to the aforesaid provisions and the need for effective compliance with the said provisions. Further, stock exchanges are advised to inform the companies that submission of the audit

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<sup>64</sup> Circular No. D&CC/FITTC/CIR - 16/2002 dated December 31, 2002

<sup>65</sup> Circular No. CIR/MRD/DP/30/2010 dated September 6, 2010

<sup>66</sup> Circular No. SEBI/MRD/Policy/CIR-13/2004 dated March 3, 2004



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report is a continuous requirement and accordingly, comply with the same regularly on time.

- b) To put in place a system for monitoring the compliance of the aforesaid disclosure requirements by the listed companies.
- c) To draw the attention of the companies that failure to comply with the aforesaid provisions would be viewed seriously and penal actions including adjudication proceedings and other actions as mentioned in SEBI SOP Circular dated November 30, 2015 would be initiated against the companies.<sup>67</sup>
- d) To take any other suitable steps to ensure compliance by the companies with the audit requirement.
- e) To submit the status reports to SEBI on the extent of compliance with the audit requirement by the listed companies, within 45 days from the end of each quarter.

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<sup>67</sup> Circular No. CIR/CFD/CMD/12/2015 dated November 30, 2015



## SECTION - 20: CHANGE OF NAME BY LISTED COMPANIES

### 20.1 Change of Name of Listed Companies<sup>68</sup>

Listed Entity intending to Change the Name of the Company shall do the same in compliance with provision of Reg. 45 of the SEBI (LODR) regulation, 2015 as below;

Change in name of the listed entity.

(1) The listed entity shall be allowed to change its name subject to compliance with the following conditions:

- (a) a time period of at least one year has elapsed from the last name change;
- (b) at least fifty percent. of the total revenue in the preceding one year period has been accounted for by the new activity suggested by the new name; or
- (c) the amount invested in the new activity/project is atleast fifty percent of the assets of the listed entity:

Provided that if any listed entity has changed its activities which are not reflected in its name, it shall change its name in line with its activities within a period of six months from the change of activities in compliance of provisions as applicable to change of name prescribed under Companies Act, 2013.

Explanation. - For the purpose of this regulation, -

- (i) 'assets' of the listed entity means the sum of fixed assets, advances, works in Progress / Inventories, investments, trade receivables, cash & cash equivalents;
- (ii) 'advances' shall include only those amounts extended to contractors and suppliers towards execution of project, specific to new activity as reflected in the new name.

(2) On satisfaction of conditions at sub-regulation (1), the listed entity shall file an application for name availability with Registrar of Companies.

(3) On receipt of confirmation regarding name availability from Registrar of Companies, before filing the request for change of name with the Registrar of Companies in terms of provisions laid down in Companies Act, 2013 and rules made thereunder, the listed entity shall seek approval from Stock Exchange by submitting a certificate from chartered accountant stating compliance with conditions at sub-regulation (1).

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<sup>68</sup> Refer SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015



**SECTION - 21: OFFER FOR SALE OF SHARES BY PROMOTERS THROUGH STOCK EXCHANGE MECHANISM<sup>69</sup>**

**21.1 Offer For Sale of Shares by Promoters through the Stock Exchange Mechanism**

**1. Eligibility**

**(a) Exchanges**

The facility of offer for sale of shares shall be available on Bombay Stock Exchange (BSE), National Stock Exchange (NSE) and MCX-SX.

**(b) Sellers**

- (i) All promoter(s)/ promoter group entities of such companies that are eligible for trading and are required to increase public shareholding to meet the minimum public shareholding requirements in terms Rule 19(2)(b) and 19A of Securities Contracts (Regulation) Rules, 1957 (SCRR), read with clause 40A (ii) (c) of Listing Agreement.
- (ii) Any non-promoter shareholder of eligible companies holding at least 10% of share capital may also offer shares through the OFS mechanism.
- (iii) In case a non-promoter shareholder offers shares through the OFS mechanism, promoters/ promoter group entities of such companies may participate in the OFS to purchase shares subject to compliance with applicable provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 and SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.
- (iv) OFS mechanism shall be available to companies with market capitalization computed as the average daily market capitalization for six months period prior to the month in which the OFS opens.<sup>70</sup>
- (v) Promoters of eligible companies shall be permitted to sell shares within a period of 2 (two) weeks from the OFS transaction to the employees of such companies. The offer to employee shall be considered as a part of the said OFS transaction<sup>71</sup>

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<sup>69</sup> Circular No. CIR/MRD/DP/18/2012 dated July 18, 2012, CIR/MRD/DP/24/2014 dated August 08, 2014 and CIR/MRD/DP/32/2014 dated December 01, 2014

<sup>69</sup> Modified vide Circular No. CIR/MRD/DP/36/2016 dated February 15, 2016 and CIR/MRD/DP/12/2015 dated June 26, 2015

<sup>70</sup> Modified vide Circular No. SEBI/HO/MRD/DOP I/CIR/P/2018/159 dated December 28, 2018

<sup>71</sup> Circular No. CIR/MRD/DP/ 65 /2017 dated June 27, 2017



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For (i) and (ii) above, the promoter/promoter group entities should not have purchased and/or sold the shares of the company in the 12 weeks period prior to the offer and they should undertake not to purchase and/or sell shares of the company in the 12 weeks period after the offer. However, within the cooling off period of +12 weeks, the promoter(s)/promoter group entities can offer their shares only through OFS/ Institutional Placement Programme (IPP) with a gap of 2 weeks between successive offers.

The above shall also be applicable on promoter(s) / promoter group entities who have already offered their shares through OFS/IPP.

## (c) Buyers

All investors registered with the brokers of the aforementioned stock exchanges other than the promoter(s)/ promoter group entities.

## 2. Definitions

- (a) "Single Clearing Price" is the price at which the shares are allocated to the successful bidders in a proportionate basis methodology.
- (b) "Multiple Clearing Prices" are the prices at which the shares are allocated to the successful bidders in a price priority methodology.
- (c) "Indicative Price" is the volume weighted average price of all the valid bids<sup>72</sup>.
- (d) "Floor Price" is the minimum price at which the seller intends to sell the shares.

## 3. Size of Offer for sale of shares

The size of the offer shall be a minimum of Rs 25 crores. However, size of offer can be less than Rs 25 crores so as to achieve minimum public shareholding in a single tranche.

## 4. Advertisement and offer expenses

- (a) Advertisements about the offer for sale of shares through stock exchange(s), if any, shall be made after the announcement/ notice of the offer for sale of shares to the stock exchanges in accordance with para 5 (b) below and its

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<sup>72</sup> Circular No. CIR/MRD/DP/04/2013 dated January 25, 2013



contents, shall be restricted to the contents of the notice as given to the stock exchange under Para 5 (b).

- (b) All expenses relating to offer for sale of shares through stock exchange(s) shall be borne by the seller(s).

## **5. Operational Requirements**

### **(a) Appointment of Broker**

The Seller(s) will appoint broker(s) for this purpose. The Seller's broker(s) may also undertake transactions on behalf of eligible buyers.

### **(b) Announcement/ Notice of the Offer for sale of shares**

Seller shall announce intention of sale of shares latest by 5 pm on T-1 days (T day being the day of the OFS) to the stock exchange. Stock exchanges shall inform the market immediately upon receipt of notice. Seller(s) shall announce the intention of sale of shares along with the following information:<sup>73</sup>

- (i) Name of the seller(s) (promoter/ promoter group) and the name of the company whose shares are proposed to be sold.
- (ii) Name of the Exchange(s) where the orders shall be placed. In case orders are to be placed on both BSE and NSE or MCX-SX, one of them shall be declared as the Designated Stock Exchange ("DSE").
- (iii) Date and time of the opening and closing of the offer.
- (iv) Allocation methodology i.e. either on a price priority (multiple clearing prices) basis or on a proportionate basis at a single clearing price.
- (v) Number of shares being offered for sale.
- (vi) The maximum number of shares that the seller may choose to sell over and above the offer made at point (v) above. The name of the broker(s) on behalf of the seller(s).
- (vii) The date and time of the declaration of floor price, if the seller(s) chooses to announce it to the market. Alternatively, a declaration to the effect that the floor price will be submitted to the DSE in a sealed envelope that shall be disclosed post closure of the offer.
- (viii) Conditions, if any, for withdrawal or cancellation of the offer.

### **(c) Floor price**

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<sup>73</sup> Amended Vide Circular No. CIR/MRD/DP/17/2013 dated May 30, 2013





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- (i) Seller shall disclose the floor price latest by 5 pm on T-1 day to the stock exchange. Stock exchanges shall ensure that the same is informed to the market immediately.
- (ii) The promoters may at their discretion offer these shares to employees at the price discovered in the said OFS transaction or at a discount to the price discovered in the said OFS transaction.
- (iii) Promoters shall make necessary disclosures in the OFS notice to the exchange including number of shares offered to employees and discount offered if any.<sup>74</sup>

### **(d) Discount by Seller**

- (i) Seller may offer discount to retail investors. The details of discount and percentage of reservation for retail investors shall be disclosed upfront in the notice of OFS to the exchange.
- (ii) Discount to retail investors may be offered as follows:

#### Multiple Clearing price OFS-

- A. Retail investors may be allocated shares at a discount to the cut-off price determined in the retail category, irrespective of the bid price entered by them. Or
- B. Retail investors may be allocated shares at a discount to the bid price entered by them.

#### Single clearing price OFS-

- A. Retail investors shall be allocated shares at a discount to cut off price determined in the retail category.

In case of both of the above methodologies, the discounted price which shall be the final allocation price to the retail investors may be below the floor price.

### **(e) Timelines**

- (i) The duration of the offer for sale shall be as per the trading hours of the secondary market.

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<sup>74</sup> Circular No. 76 Circular No. CIR/MRD/DP/ 65 /2017 dated June 27, 2017



- (ii) On the commencement of OFS on T day only non-retail investors shall be permitted to place their bids. Cut off price shall be determined based on the bids received on T day as per the extant guidelines.
- (iii) The retail investors shall bid on T+ 1 day and they may place a price bid or opt for bidding at cut off price. The seller shall make appropriate disclosures in this regard in the OFS notice.
- (iv) Orders shall be placed during trading hours<sup>75</sup>.

**(f) Order Placement**

- (i) A separate window for the purpose of sale of shares through OFS shall be created. The following orders shall be valid in the OFS window:
  - A. Orders with 100% of margin paid upfront by institutional investors and non-institutional investors. Such orders can be modified or canceled at any time during the trading hours.
  - B. Orders without paying upfront margin by institutional investors only. Such orders cannot be modified or cancelled by the investors or stock brokers, except for making upward revision in the price or quantity.<sup>76</sup>
- (ii) Individual retail investors shall have the option to bid in the retail category and the general category. However, if the cumulative bid value of such investors exceeds Rs.2 lakhs, the bids in the retail category shall become ineligible.
- (iii) To make it easier for retail investors to participate in OFS, it would be mandatory for sellers to provide the option to retail investors to place their bids at cut off price in addition to placing price bids. In order to do so, following conditions shall be applicable to the OFS:
  - A. Sellers shall mandatorily announce floor price latest by 5 pm on T-1 day to stock exchange.
  - B. Exchanges will decide upon the quantity of shares eligible to be considered as retail bids, based upon the floor price declared by the seller.
  - C. There shall be no indicative price for the retail portion of OFS.
  - D. Retail investors may enter a price bid or opt for bidding at cut-off price.

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<sup>75</sup> Replaced vide Circular No. CIR/MRD/DP/04/2013 dated January 25, 2013

<sup>76</sup> Amended Vide Circular No. CIR/MRD/DP/04/2013 dated January 25, 2013



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- E. Margin for bids placed at cut-off price shall be at the floor price and for price bids at the value of the bid.
  - F. Allocation to retail investors shall be made based on the cut-off price determined in the non-retail category.
  - G. Seller may offer discount to retail investors on the said cut off price. Discount, if any to retail investors, shall be applicable to bids received on T+1 day.
  - H. Retail bids below the cut-off price shall be rejected. Retail bids at cut-off price shall be allocated on proportionate basis in case of over subscription.
  - I. Any unsubscribed portion of retail category after allotment shall be eligible for allocation in the non-retail category.
- (iv) Cumulative bid quantity shall be made available online to the market throughout the trading session at specific intervals in respect of orders with 100% upfront margin and separately in respect of orders placed without any upfront margin. Indicative price shall be disclosed to market throughout the trading session. The indicative price shall be calculated based on all valid bids/orders.<sup>77</sup> Indicative price for retail and non-retail portion shall be displayed separately
  - (v) If the security has a price band in the normal segment, the same shall not apply for the orders placed in the offer for sale. Stock specific tick size as per the extant practice in normal trading session shall be made applicable for this window.
  - (vi) In case of shares under offer for sale, the trading in the normal market shall also continue. However, in case of market closure due to the incidence of breach of 'Market wide index based circuit filter', the offer for sale shall be halted.
  - (vii) Only limit orders/ bids shall be permitted.
  - (viii) Multiple orders from a single buyer shall be permitted.
  - (ix) In case floor price is disclosed, orders/ bids below floor price shall not be accepted.

### 6. Risk Management

- (a) Clearing Corporation shall collect 100% margin in cash from non-institutional investors. In case of institutional investors who place

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<sup>77</sup> Amended Vide Circular No. CIR/MRD/DP/04/2013 dated January 25, 2013



orders/bids with 100% of margin upfront, custodian confirmation shall be within trading hours. In case of institutional investors who place orders without upfront margin, custodian confirmation shall be as per the existing rules for secondary market transactions. The funds collected shall neither be utilized against any other obligation of the trading member nor commingled with other segments.<sup>78</sup>

- (b) In respect of bids in the retail category, clearing corporation shall collect margin to the extent of 100% of order value in cash or cash equivalents. Pay-in and pay-out for retail bids shall take place as per normal secondary market transactions.
- (c) In case of order/bid modification or cancellation, such funds shall be released/collected on a real time basis by the clearing corporation.<sup>79</sup>
- (d) The seller(s) shall deposit the entire quantity of shares offered for sale including the additional shares disclosed at Para 5(b) (vi) as pay in with the clearing corporation/clearing house of DSE prior to the commencement of the offer. No other margin shall be charged on the seller(s).

## **7. Allocation**

- (a) Minimum of 25% of the shares offered shall be reserved for mutual funds and insurance companies, subject to allocation methodology. Any unsubscribed portion thereof shall be available to the other bidders.
- (b) Minimum 10% of the offer size shall be reserved for retail investors. For this purpose, retail investor shall mean an individual investor who places bids for shares of total value of not more than Rs.2 lakhs aggregated across the exchanges. If the cumulative bid value across exchanges exceeds Rs.2 lakhs in the retail category, such bids shall be rejected.
- (c) The cut off price i.e. the lowest price at which the entire offer gets sold, shall be determined based on all valid bids. The cut off price shall be determined separately for bids received in the retail category and for bids received in the non-retail category.
- (d) Upon determining the cut-off price, the offer size reserved for retail investors shall be allocated to eligible bids of retail investors. In case of excess demand in retail category at the cut-off price, allocation shall be on proportionate basis.
- (e) In order to ensure that shares reserved for retail investors do not remain unallocated due to insufficient demand by the retail investors, the bids of non- retail investors shall be allowed to carry forward to T+1 day.
- (f) Unsubscribed portion of the shares reserved for retail investors shall be allocated to non-retail bidders (un-allotted bidders on T day who choose to

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<sup>78</sup> Replaced vide Circular No. CIR/MRD/DP/04/2013 dated January 25, 2013

<sup>79</sup> Amended vide Circular No. CIR/MRD/DP/04/2013 dated January 25, 2013



carry forward their bid on T+1 day) on T+1 day at a price equal to cut off price or higher as per the bids. In this regard, option shall be provided to such non-retail bidders to indicate their willingness to carry forward their bids to T+1 day. If the non-retail bidders choose to carry forward their bids to T+1 day, then, they may be permitted to revise such bids. Settlement for such bids shall take place on T+3 day.

- (g) The orders shall be cumulated by the DSE immediately on close of the offer. Based on the methodology for allocation to be followed as disclosed in the notice, the DSE shall draw up the allocation. i.e. either on a price priority (multiple prices) basis or on a proportionate basis at a single clearing price.
- (h) No allocation will be made in case of order/ bid is below floor price.
- (i) No single bidder other than mutual funds and insurance companies shall be allocated more than 25% of the size of offer for sale.
- (j) The allocation details shall be shared by the DSE with the other exchanges after the allocation is crystallized.

#### **8. (i) Settlement**

- (a) The allocation and the obligations resulting thereof shall be intimated to the brokers on T day.
- (b) Settlement shall take place on trade for trade basis. For non-institutional orders/bids and for institutional orders with 100% margin, settlement shall take place on T+1 day. In case of orders/bids of institutional investors with no margin, settlement shall be as per the existing rules for secondary market.<sup>80</sup>
- (c) Settlement for bids received on T+1 day shall take place on T+3 days (T+1 day being trade day for retail investors).
- (d) Funds collected from the bidders who have not been allocated shares shall be released after the download of the obligation.
- (e) On T+1 day, to the extent of obligation determined, the clearing Corporation/ Clearing house of DSE shall transfer such number of shares to the clearing corporation/clearing house of the other stock exchange, without consideration of money. Excess shares, if any, shall be returned to seller broker(s). The direct credit of shares shall be given to the demat account of the successful bidder provided such manner of credit is indicated by the broker/bidder.

#### **(ii) Handling of default in pay-in**

- (a) In case of default in pay-in by any investor, 10% of the order value shall be charged as penalty from the investor and collected from the broker. This

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<sup>80</sup> Replaced vide Circular No. CIR/MRD/DP/04/2013 dated January 25, 2013



- amount shall be credited to the Investor Protection Fund of the stock exchange.<sup>81</sup>
- (b) The price at which allotments have been made based on the allocation on T day shall not be revised as a result of any default in pay-in.
  - (c) Issuer shall have the option to cancel in full or conclude the offer.
  - (d) Allotment details after settlement shall also be disseminated by the exchange.
  - (e) Allocation details after settlement shall be consolidated by the DSE and excess shares, if any, shall be returned by the respective Clearing Corporation/ Clearing house to the seller(s) broker(s).
  - (f) Settlement Guarantee Fund shall not be available for OFS through stock exchange mechanism.

#### **9. Issuance of Contract Notes**

The brokers shall be required to issue contract note to the client based on the allotment price and quantity in terms of conditions specified by the exchange.

#### **10. Withdrawal of offer**

The offer for sale may be withdrawn prior to its proposed opening. In such a case there will be a cooling off period of 10 trading days from the date of withdrawal before an offer is made once again. The stock exchange(s) shall suitably disseminate details of such withdrawal.

#### **11. Cancellation of offer**

Cancellation of offer shall not be permitted during the bidding period. If the seller(s) fails to get sufficient demand from non-retail investors at or above the floor price in T day, then the seller may choose to cancel the offer, post bidding, in full (both retail and non-retail) on T day and not proceed with offer to retail investors on T+1 day.<sup>82</sup>

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<sup>81</sup> Replaced vide Circular No. CIR/MRD/DP/04/2013 dated January 25, 2013

<sup>82</sup> Modified vide Circular No. SEBI/HO/MRD/DOP I/CIR/P/2018/159 dated December 28, 2018



**SECTION-22: LIQUIDITY ENHANCEMENT SCHEMES FOR ILLIQUID SECURITIES IN EQUITY CASH MARKET<sup>83</sup>**

**22.1 Liquidity Enhancement Schemes in the Equity Cash and Equity Derivatives Segment**

1. The stock exchange may introduce market making / liquidity enhancement schemes in cash market and equity derivatives segment subject to the following:
  - a) The scheme shall have the prior approval of the Stock Exchange's Board and its implementation and outcome shall be monitored by the Board at quarterly intervals.
  - b) The scheme shall be objective, transparent, non-discretionary and non-discriminatory.
  - c) The scheme shall specify the incentives available to the market makers / liquidity providers and such incentives may include discount in fees, adjustment in fees in other segments, cash payment or issue of shares, including options and warrants.
  - d) The scheme shall not compromise market integrity or risk management.
  - e) The effectiveness of the scheme shall be reviewed by the stock exchange every six months and the stock exchange shall submit half-yearly reports to SEBI.
  - f) The scheme, including any modification therein or its discontinuation, shall be disclosed to the market at least 15 days in advance.
  - g) Outcome of the scheme (incentives granted and volume achieved - market maker wise and security wise) shall be disseminated monthly.
  - h) The scheme shall comply with all the relevant laws.
2. Securities eligible for liquidity enhancement schemes - The stock exchange shall formulate its own benchmarks for selecting the securities for liquidity enhancement with the broad objective of enhancing liquidity in illiquid securities.
  - a) The stock exchanges shall introduce liquidity enhancement schemes on any security for a maximum period of three years. Once the scheme is discontinued, the scheme can be re-introduced on the same security

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<sup>83</sup> Circular No. CIR/MRD/DP/14/2014 dated April 23, 2014



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provided it is less than the three year period since the introduction of scheme on that security.

- b) Further, a stock exchange may introduce liquidity enhancement schemes in securities where liquidity enhancement scheme has been introduced in another stock exchange. Such schemes cannot be continued beyond the period of liquidity enhancement schemes of the initiating stock exchange.
  - c) The list of securities eligible for liquidity enhancement shall be disseminated to the market.
3. The incentives under liquidity enhancement schemes shall be transparent and measurable, and may take either of the following two forms:
- a) Discount in fees, adjustment in fees in other segments or cash payment - The incentives during a financial year shall not exceed 25% of the net profits or 25% of the free reserves of the stock exchange, whichever is higher, as per the audited financial statements of the preceding financial year.
  - b) Shares, including options and warrants, of the stock exchange - The shares that may accrue on exercise of warrants or options, given as incentives under all liquidity enhancement scheme, during a financial year, shall not exceed 25% of the issued and outstanding shares of the stock exchange as on the last day of the preceding financial year. Further, the stock exchange shall ensure that this is in compliance with the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 at all times.
4. Market integrity - The stock exchange shall ensure the following:
- a) The stock exchange shall have systems and defined procedures in place to monitor collusion between stock brokers indulging in trades solely for seeking incentives and prevent payment of incentives in such cases.
  - b) Incentives shall not be provided for the trades where the counterparty is self, i.e., same Unique Client Code (UCC) is on both sides of the transaction.
  - c) Any violations of clauses in this para shall be viewed most seriously.
5. Market maker / liquidity enhancer - The exchange shall prescribe and monitor the obligations of liquidity enhancers (liquidity provider, market-maker, maker-taker or by whatever name called)
- a) All market maker / liquidity enhancer orders / trades should be identifiable by the stock exchange.





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- b) A conflict of interest framework shall be put in place by the stock exchange for the liquidity enhancement scheme. Such a framework shall provide for obligation on the part of the market maker / liquidity enhancer to disclose any conflict of interest while participating in the scheme. The same shall be disclosed by the stock exchange on their website.
6. This section shall not be applicable to securities listed on SME Platform or SME Exchange.



## **SECTION - 23: INTRODUCTION OF NEW TRADING SEGMENT**

### **23.1 New Trading Segment<sup>84</sup>**

Introduction of any new trading segment on the exchanges would require stock exchanges to seek the prior approval of SEBI.

While applying to SEBI for the approval for the introduction of new segment, the exchange shall provide the information on the parameters for the new segment and also the rationale for introduction of the new segment.

### **23.2 Guidelines for Providing Dedicated Debt Segment on Stock Exchanges<sup>85</sup>**

1. The market for debt securities differs from equity markets in several ways such as risk, returns, liquidity, type of participants and method of trading. While publicly issued debt securities are listed, traded and settled in a manner similar to equity, privately placed debt is usually traded between institutional investors on 'Over the Counter' (OTC) basis. Such OTC transactions are mandatorily reported on reporting platforms at FIMMDA, BSE and NSE. The settlement for such transactions is different from that in equity markets or publicly issued debt securities.
2. Whereas the equity markets in India offer trading infrastructure comparable to the best available globally, the debt markets lack such infrastructure. In order to cater to the unique characteristics of debt markets, it has been decided to provide dedicated a debt segment on the stock exchanges.
3. The debt segment shall offer separate trading, clearing, settlement, reporting facilities and membership to deal in :
  - i. "debt securities" as defined in Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
  - ii. Government Securities, Treasury Bills, State Government loans, SLR and Non-SLR Bonds issued by Financial Institutions, municipal bonds, single bond repos, basket repos and CBLO kind of products subject to RBI approval, where required;
  - iii. Securitized debt instruments as defined in SEBI (Public Offer and Listing of Securitized Debt Instruments) Regulations, 2008;
  - iv. any other debt instruments as may be specified from time to time by the competent authority.

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<sup>84</sup> Circular No. SEBI/MRD/SE/Cir-38/2003 dated October 8, 2003

<sup>85</sup> Circular No. CIR/MRD/DP/03/2013 dated January 24, 2013



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4. An existing stock exchange or new stock exchange desirous of setting up debt segment may make an application to SEBI, providing operational, regulatory and any other necessary details.

5. The broad framework / features for debt segment shall be as under-

**A. Listing:** This segment shall list all the securities and debt instruments mentioned at para 3 above.

**B. Trading:**

- i. The debt segment shall offer electronic, screen based trading providing for order matching, request for quote, negotiated trades etc.
- ii. The trading facility may be provided using exchange network including using access methods such as internet trading, mobile trading or any other methods specified by SEBI.
- iii. The debt segment shall provide separate platforms for the markets described below -
  - a. Retail market - which shall be a market for listing of and trading in publicly-issued debt instruments and where participation by registered trading members can be on their own account or for execution of orders placed their clients.
  - b. Institutional market - which shall be a market for publicly and<sup>86</sup> non-publicly-issued debt instruments with a market lot size of minimum Rs 1 crore. For trading in smaller lot sizes of minimum rupees ten lakhs in respect of privately issued debt instruments in the institutional market, a separate odd lot window may be provided.<sup>87</sup>
- iv. In addition to institutional investors, Direct Market Access (DMA) facility shall be extended to other investors to participate in Institutional market of debt segment. In this regard, the provisions as stipulated in SEBI circular MRD/DoP/SE/Cir- 7 /2008 dated April 03, 2008, MRD/DoP/SE/Cir- 03 /2009 dated February 20, 2009 and CIR/MRD/DP 20/2012 August 02, 2012 and modifications thereto shall be applicable.

• **Trading Rules:**

- The trading hours shall be from 9:00 hours to 17:00 hours to be in alignment with trading hours of government securities as issued by RBI.

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<sup>86</sup> Amended vide Circular No. CIR/MRD/DP/27/2013 dated September 12, 2013

<sup>87</sup> Amended vide Circular No. CIR/MRD/DP/27/2013 dated September 12, 2013



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- The day count convention of Actual/Actual shall be followed for calculating interest rates.
- The stock exchange shall facilitate availability of price quotes on clean price, dirty price and yield.
  - i. There shall be no shut period during which trades/ transfers are restricted for payment of interest or part redemptions. For other corporate actions such as redemptions/ put-call options, issuers may choose to specify a shut period.
  - ii. The record date shall be fixed not more than 15 days prior to date of corporate action which shall be displayed on trading terminal by stock exchanges.
  - iii. In case of negotiated trades by members of the debt segment, the trades shall be reported to stock exchange within 30 minutes of the trade.

### **C. Clearing and Settlement:**

- i. All trades shall be cleared and settled through a clearing corporation. For this purpose, all trading members shall be self-clearing members or may clear through a clearing member.
- ii. The settlement shall depend on the market type, as given below:
  - a. For institutional market: All trades shall be settled on T+1 rolling settlement on DVP-I basis using RBI RTGS account. Stock exchanges/clearing corporation may opt to provide clearing and settlement on DVP-II or DVP-III basis for this market in future and shall put in place appropriate risk management framework for the same.
  - b. For retail market: The trades shall be settled on T+2 rolling settlement on DVP-III basis with settlement guarantee.

### **D. Risk management framework:**

- i. For retail market, a uniform margin rate of 10% shall be applicable on debt instruments with rating of AA or above (or with similar rating nomenclature) by recognized credit rating agencies and 25% for all other debt instruments. Further, in case of shortages, there shall be compulsory close-out with a markup of 5% in case of debt instruments which are assigned a credit rating of AA and above and 10% in case of other debt instruments.
- ii. For institutional market, as and when settlement is done on DVP-II or DVP-III basis, appropriate margins may be prescribed after approval by SEBI.



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- iii. The clearing corporation shall specify appropriate risk management framework for each market, wherein it shall, inter-alia, provide for computation and collection of margins, capital adequacy norms and collateral requirements for the clearing members, settlement guarantee fund as applicable. This shall be approved by SEBI.
- E. Trade repository: With an objective to have centralised repository for trades in debt instruments, the stock exchanges shall report trade information to a common trade repository as may be specified by SEBI.

### F. Membership:

- i. Any entity desirous of becoming trading member, self-clearing member and/or clearing member of debt segment shall seek registration under SEBI (Stock Broker and Sub-Broker) Regulations, 1992.
- ii. Institutions such as scheduled commercial banks, primary dealers, pension funds, provident funds, insurance companies, mutual funds and any other investors as may be specified by sectoral regulators from time to time, can trade on the debt segment either as clients of registered trading members or directly as trading member on proprietary basis only (i.e own-account trades only). Such institutions desirous of trading on own account only shall be given trading membership under SEBI (Stock Broker and Sub-Broker) Regulations, 1992 as proprietary trading member.
- iii. For an interim period of six months from the date of this circular or till the application for registration as per amended SEBI (Stock Broker and Sub-Broker) Regulations, 1992 is refused by the Board or till cessation of membership, whichever is earlier, the transitional provisions shall be -
  - a. Institutional market of debt segment: Any existing registered trading member and/or clearing member/self-clearing member in derivative segment or currency derivatives segment desirous of trading or clearing trades in debt segment shall be permitted to trade or clear trades.
  - b. Retail market of debt segment: Any existing registered stock broker/trading member and /or clearing member/self-clearing desirous of trading or clearing trades in debt segment shall be permitted to trade or clear trades.
- iv. The trading member, proprietary trading member, clearing member and self-clearing member of debt segment shall have net worth and deposit as prescribed in SEBI (Stock Broker and Sub-broker) Regulations, 1992.



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- v. The Base Minimum Capital for stock broker/trading member shall be in line with SEBI circular dated December 19, 2012.
  - vi. The stock exchanges and clearing corporation may specify additional membership criteria for trading member/proprietary trading member and clearing member/self-clearing member respectively.
- G. Market Making:** With the view to infuse liquidity in the market, market makers shall be permitted in the debt segment. Market making may be provided by merchant bankers, issuers through brokers or any other entity as may be specified. The rules for market making shall be specified by the stock exchanges with approval of SEBI.



**SECTION - 24: ANNULMENT OF TRADES ON STOCK EXCHANGES**

**24.1 Policy for annulment of trades undertaken on stock exchanges<sup>88</sup>**

1. In order to bring about uniformity and transparency in the process of trade annulment, stock exchanges are advised to 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:
  - i. Examination of trade(s) for annulment may be taken up either suo moto 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.
  - ii. Stock exchanges shall prescribe the procedure for submission of requests by stock brokers, including mechanism to submit requests in electronic form.
  - iii. 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.
  - iv. Stock exchanges shall suitably and in a time bound manner inform details of such requests to all stock brokers of the stock exchange.
  - v. 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.
  - vi. 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.

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<sup>88</sup> Reference: Circular No. CIR/MRD/DP/15/2015 dated July 16, 2015



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- vii. 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.
  - viii. 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.
  - ix. 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.
  - x. 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.
  - xi. 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.
  - xii. 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.
2. 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.





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3. In addition, stock exchanges shall implement a suitable framework to penalise stock brokers who place erroneous orders.
4. 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 byelaws of the stock exchanges.
5. Stock exchanges may specify additional requirements as they may deem fit in order to ensure orderly trading and market integrity.



**SECTION - 25: POWER OF ATTORNEY**

**25.1 Execution of Power of Attorney (PoA) by the Client in favour of the Stock Broker/ Stock Broker and Depository Participant<sup>89</sup>**

1. A Power of Attorney is executed by the client in favour of the stock broker / stock broker and depository participant to authorize the broker to operate the client's demat account and bank account to facilitate the delivery of shares and pay-in/ pay-out of funds.
2. Generally, the PoA is taken from the clients who want to avail internet based trading services. For offering internet based trading services, a stock broker requires necessary authorizations for seamless trading, collection of margins as well as settlement of funds and securities. Further, some of the stock brokers also obtain authorizations from their clients to offer non-internet based services.
3. It has come to SEBI's notice that the clients are compelled to give irrevocable power of attorney to manage clients' demat account(s) and bank account(s) so that the clients are able to pay funds or deliver shares to their brokers on time. In some cases, the PoA even allows a broker to open and close accounts on behalf of the client and to trade on client's account without the consent of the client.
4. In order to standardize the norms to be followed by stock brokers / stock broker and depository participants while obtaining PoA from the clients, guidelines have been finalized based on discussions in Secondary Market Advisory Committee of SEBI (SMAC) and feedback from market participants, investor associations, major stock exchanges and depositories on discussion paper on the captioned subject put on SEBI website. It has been decided that the guidelines as set out in para 7, 8 and 9 shall be made applicable to stock brokers / stock broker and depository participants.
5. Standardizing the norms for PoA must not be construed as making the PoA a condition precedent or mandatory for availing broking or depository participant services. PoA is merely an option available to the client for instructing his broker or depository participant to facilitate the delivery of shares and pay-in/ pay-out of funds, etc. No stock broker or depository participant shall deny services to the client if the client refuses to execute a PoA in their favour.
6. The stock brokers were required to take necessary steps to implement this circular latest by May 31, 2010 for the new clients and ensure to take necessary steps latest by September 01, 2010 to revoke those authorizations

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<sup>89</sup> Circular No. CIR/MRD/DMS/13/2010 Dated April 23, 2010



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given by the existing clients to the stock brokers / stock broker and depository participants through PoA that are inconsistent with the present guidelines.

### 7. Guidelines for execution of Power of Attorney by clients favouring stock brokers / stock broker and depository participants:-

#### 7.1 PoA favoring Stock Brokers

PoA executed in favor of a stock broker by the client should be limited to the following:

##### A. Securities

- a) Transfer of securities held in the beneficial owner account(s) of the client(s) towards stock exchange related margin / delivery obligations arising out of trades executed by the client(s) on the stock exchange through the same stock broker.
- b) Pledge the securities in favour of Stock Broker for the limited purpose of meeting the margin requirements of the client(s) in connection with the trades executed by the client(s) on the stock exchange through the same stock broker. Necessary audit trail should be available with the stock broker for such transactions.
- c) To apply for various products like Mutual Funds, Public Issues (shares as well as debentures), rights, offer of shares, tendering shares in open offers etc. pursuant to the instructions of the client(s). However, a proper audit trail should be maintained by the stock broker to prove that the necessary application / act was made / done pursuant to receipt of instructions from client(s).

##### B. Funds

Transfer of funds from the bank account(s) of the client(s) for the following:

- a) For meeting the settlement obligations of the client(s) / margin requirements of the client(s) in connection with the trades executed by the clients on the stock exchange through the same stock broker.
- b) For recovering any outstanding amount due from the client(s) arising out of clients trading activities on the stock exchanges through the same stock broker.
- c) For meeting obligations arising out of the client subscribing to such other products/facilities/services through the stock broker like Mutual Funds, Public Issues (shares as well as debentures), rights, offer of shares, tendering of shares in open offers, etc.



- d) Towards monies/fees/charges, etc. due to the stock broker /depository participant /principal payable by virtue of the client using /subscribing to any of the facilities /services availed by the client at his /her instance.
- e) Necessary audit trail should be available with the stock broker for such transactions.

## 7.2 POA favouring Stock Brokers and Depository Participants

PoA executed in favour of a stock broker and depository participant by the client should:

- (i) identify /provide the particulars of the beneficial owner account(s) and the bank account(s) of the client(s) that the stock broker is entitled to operate.
- (ii) provide the list of clients' & brokers' bank accounts & demat accounts where funds and securities can be moved. Such bank & demat accounts should be accounts of related party only.
- (iii) be executed in the name of the concerned SEBI registered entity only and not in the name of any employee or representative of the stock broker/depository participant.
- (iv) not provide the authority to transfer the rights in favour of any assignees of the stock broker /depository participant.
- (v) be executed and stamped as per the rules / law prevailing in the place where the PoA is executed or the place where the PoA is kept as a record, as applicable.
- (vi) contain a clause by which the stock broker would return to the client(s), the securities or funds that may have been received by it erroneously or those securities or funds that it was not entitled to receive from the client(s).
- (vii) be revocable at any time, without notice.
- (viii) be executed by all the joint holders (in case of a demat account held jointly). If the constitution of the account is changed for whatever reason, a new PoA should be executed.
- (ix) authorize the stock broker/depository participant to send consolidated summary of client's scrip-wise buy and sell positions taken with average rates to the client by way of SMS / email on a daily basis, notwithstanding any other document to be disseminated as specified by SEBI from time to time.



8. General Guidelines

The POA shall not facilitate the stock broker to do the following:

- (i) Transfer of securities for off market trades.
- (ii) Transfer of funds from the bank account(s) of the clients for trades executed by the clients through another stock broker.
- (iii) Open a broking / trading facility with any stock broker or for opening a beneficial owner account with any depository participant.
- (iv) Execute trades in the name of the client(s) without the client(s) consent.
- (v) Prohibit issue of Delivery Instruction Slips (DIS) to beneficial owner (client).
- (vi) Prohibit client(s) from operating the account.
- (vii) Merging of balances (dues) under various accounts to nullify debit in any other account.
- (viii) Open an email ID/ email account on behalf of the client(s) for receiving statement of transactions, bills, contract notes etc. from stock broker / depository participant.
- (ix) Renounce liability for any loss or claim that may arise due to any blocking of funds that may be erroneously instructed by the stock broker to the designated bank.

9. Stock Broker / Depository Participant should ensure that:

- (i) A duplicate/ certified true copy of the PoA is provided to the client(s) after execution.
- (ii) In case of merger/ demerger of the stock broker/ depository participant with another entity/ into another entity, the scheme of merger/ demerger should be approved by High Court and one month prior intimation given to the client about the corporate restructuring to facilitate investor / client to continue or discontinue with the broker / depository participant.

**25.2 Execution of Power of Attorney (PoA) by the Client in favour of the Stock Broker/ Stock Broker and Depository Participant<sup>90</sup>**

1. SEBI received representation from Market Participants seeking guidance and clarifications on process to be followed for implementation of the provisions of the circular no. CIR/MRD/DMS/13/2010 dated April 23,

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<sup>90</sup> Circular No. CIR/MRD/DMS/28/2010 Dated August 31, 2010.



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2010.

2. Based on the examination of the issues highlighted in the representations and so as to facilitate the implementation of the provisions of the aforesaid circular, clarifications were issued for immediate implementation as follows:

S. No.	Clauses / Provisions of the PoA Circular	Clarifications
1	Standardizing the norms for PoA must not be construed as making the PoA a condition precedent or mandatory for availing broking or depository participant services. PoA is merely an option available to the client for instructing his broker or depository participant to facilitate the delivery of shares and pay-in / pay-out of funds, etc. No stock broker or depository participant shall deny services to the client if the client refuses to execute a PoA in their favour.	Only internet based trading exempted.
2	The Stock Brokers shall take necessary steps to implement this circular latest by May 31, 2010 for the new clients and ensure to take necessary steps latest by September 01, 2010 to revoke those authorizations given by the existing clients to the stock brokers/ stock broker and depository participants through PoA that are inconsistent with the present guidelines.	Stock Broker/ DP may revoke those authorizations that are inconsistent with the present guidelines by communicating the inconsistent clauses to the existing clients. In the event, the deleted / modified clauses are not accepted by the client, Stock Broker / DP may be required to either obtain fresh PoA or close the account. In case of any addition to the existing PoA, Stock Broker / DP shall be required to obtain a new PoA from clients.
3	PoA executed in favour of a stock broker by the client should be limited to the following: "(i) Transfer of securities held in the beneficial owner account(s) of the client(s) towards stock exchange related margin /	Margin / Delivery obligations shall also include settlement obligations, if any.



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	delivery obligations arising out of trades executed by the client(s) on the stock exchange through the same stock broker."	
4	PoA executed in favour of a stock broker by the client should be limited to the following:  to apply for various products like Mutual Funds, Public Issues (shares as well as debentures), rights, offer of shares, tendering shares in open offers etc. pursuant to the instructions of the client(s). However, a proper audit trail should be maintained by the stock broker to prove that the necessary application /act was made /done pursuant to receipt of instruction from client."	Redemptions are also included in PoA pursuant to client's instructions.
5	PoA executed in favour of a stock broker and depository participant by the client should provide the list of clients' & brokers' bank accounts & demat accounts where funds and securities can be moved. Such bank & demat accounts should be accounts of related party only.	The list of clients' & brokers' bank accounts & demat accounts may be updated / amended by proper communication without executing a new PoA every time. Copies of such communications may be preserved as annexure to the PoA.
6	PoA executed in favour of a stock broker and depository participant by the client should be revocable at any time, without notice.	PoA executed in favour of a stock broker / stock broker and depository participant by the client should be revocable at any time. However, such revocation shall not be applicable for any outstanding settlement obligation arising out of the trades carried out prior to receiving request for revocation of PoA. Further, the PoA revocation requests should be dated and time stamped by the brokers for



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		ensuring proper audit trail.
7	The POA shall not facilitate the stock broker to do the following: "12. Transfer of securities for off market trades"	The PoA shall not facilitate off-market trades between parties other than the related parties as mentioned in the PoA.





**REFERENCE – List of Circulars**

1. Circular No. SMD/RCG/CIR/(BKG)/293/95 dated March 14, 1995.
2. Circular No. SMD/POLICY/IECG/1 – 97 dated February 11, 1997.
3. Circular No. SMDRP/POLICY CIR-2/99 dated January 14, 1999.
4. Circular No. SMDRP/POLICY/Cir-8/99 dated April 26, 1999.
5. Circular No. SMDRP/POLICY/CIR-32/99 dated September 14, 1999.
6. Circular No. SMDRP/Policy/Cir.- 21/99 dated July 08, 1999.
7. Circular No. SMDRP/POLICY/CIR-04/2000 dated January 20, 2000.
8. Circular No. SMDRP/Policy/Cir-41/2000 dated September 11, 2000.
9. Circular No. SMDRPD/Policy/Cir-37 /2001 dated June 28, 2001.
10. Circular No. SMDRP/Policy/CIR-39/2001 dated July 18, 2001.
11. Circular No. SMDRP/POLICY/CIR-14/2002 dated June 25, 2002.
12. Circular No D&CC/FITTC/CIR – 16/2002 dated December 31, 2002.
13. Circular No. SEBI/SMD/SE/11/2003/31/03 dated March 31, 2003.
14. Circular No. SEBI/MRD/SE/Cir- 42 /2003 dated November 19, 2003.
15. Circular No. SEBI/MRD/SE/Cir- 32/2003/27/08 dated August 27, 2003.
16. Circular No. SEBI/MRD/SE/Cir-34 /2003/29/09 dated September 29, 2003
17. Circular No. SEBI/MRD/SE/Cir-38/2003 dated October 8, 2003
18. Circular No. SEBI/MRD/SE/Cir-7 /2004 dated January 14, 2004.
19. Circular No. SEBI/MRD/SE/Cir- 12/2004 dated February 26, 2004.
20. Circular No SEBI/MRD/Policy/CIR-13/2004 dated March 3, 2004.
21. Circular No. SEBI/MRD/Policy/AT/Cir-20/2004 dated April 30, 2004.
22. Circular No. MRD/DoP/SE/Cir-28/2004 dated August 23, 2004.
23. Circular No. MRD/DoP/SE/Cir- 35/2004 dated October 26, 2004.
24. Circular No. MRD/DoP/SE/Cir- 19 /05 dated September 2, 2005.
25. Circular No. MRD/DoP/SE/Cir- 8 /2006 dated July 13, 2006.
26. Circular No. MRD/DoP/Dep/Cir-09/06 dated July 20, 2006.
27. Circular No. MRD/DoP/Dep/SE/Cir -09/06 dated July 20, 2006.
28. Circular No. MRD/DoP/Dep/SE/Cir-13/06 dated September 26, 2006.
29. Circular No. MRD/DoP/Dep/SE/Cir -17/06 dated October 27, 2006.
30. Circular No. MRD/DoP/Cir-05/2007 dated April 27, 2007.
31. Circular No. MRD/DoP/SE/Dep/Cir- 14 /2007 dated December 20, 2007.
32. Circular No. MRD/DoP/SE/Cir- 05 /2008 dated March 19, 2008.
33. Circular No. MRD/DoP/Cir-20/2008 dated June 30, 2008.
34. Circular No. MRD/DoP/SE/Cir- 31 /2008 dated October 31, 2008.
35. Circular No. MRD/DoP/ Cir-05/2009 dated May 20, 2009.
36. Circular No. MRD/DoP/SE/Cir-14/2009 dated October 14, 2009.
37. Circular No. MRD/DoP/SE/Cir- 21 /2009 dated December 9, 2009.
38. Circular No. SEBI/MRD/DoP/SE/Dep/Cir- 01 /2010 dated January 06, 2010.
39. Circular No. SEBI/MRD/DoP/SE/RTA/Cir-03/2010 dated January 07, 2010.
40. Circular No.MRD/DP/14/2010 dated April 26, 2010.
41. Circular No. CIR/MRD/DP/21/2010 dated July 15, 2010.



**भारतीय प्रतिभूति और विनिमय बोर्ड**  
**Securities and Exchange Board of India**

42. Circular No CIR/MRD/DP/30/2010 dated September 6, 2010.
43. Circular No. CIR/MRD/DP/32/2010 dated September 17, 2010.
44. Circular No. CIR/MRD/DP/ 33/2010 dated October 07, 2010.
45. Circular No. CIR/MRD/DP/07/2011 dated June 16, 2011.
46. Circular No. CIR/MRD/DP/01/2012 dated January 20, 2012.
47. Circular No. CIR/MRD/DP/02/2012 dated January 20, 2012.
48. Circular No. CIR/MRD/DP/05/2012 dated February 01/ 2012.
49. Circular No. CIR/MRD/DP/7/2012 dated February 23, 2012.
50. Circular No. CIR/MRD/DP/8/2012 dated February 27, 2012.
51. Circular No. CIR/MRD/DP/18/2012 dated July 18, 2012.
52. Circular No. CIR/MRD/DP/30/2012 dated November 22, 2012.
53. Circular No. CIR/MRD/DP/34/2012 dated December 13, 2012.
54. Circular No. CIR/MRD/DP/03/2013 dated January 24, 2013
55. Circular no. CIR/MRD/DP/04/2013 dated January 25, 2013.
56. Circular No. CIR/MRD/DP/05/2013 dated February 08, 2013.
57. Circular No. CIR/MRD/DP/6/2013 dated Februaty 14, 2013.
58. Circular No. CIR/MRD/DP/17/2013 dated May 30, 2013.
59. Circular No. CIR/MRD/DP/18/2013 dated May 30, 2013.
60. Circular No. CIR/MRD/DP/25/2013 dated September 03, 2013.
61. Circular No CIR/MRD/DP/27/2013 dated September 12, 2013
62. Circular No. CIR/MRD/DP/38/2013 dated December 19, 2013.
63. Circular No. CIR/MRD/DP/04/2014 dated February 06, 2014.
64. Circular No. SEBI/MRD/DP/19/2014 dated June 03, 2014.
65. Circular No. CIR/MRD/DP/14/2014 dated April 23, 2014.
66. Circular No. CIR/MRD/DP/24/2014 dated August 08, 2014.
67. Circular No. CIR/MRD/DP/32/2014 dated December 01, 2014.
68. Circular No. CIR/MRD/DP/02/2015 dated January 12, 2015.
69. Circular No. CIR/MRD/DP/12/2015 dated June 26, 2015.
70. Circular No. CIR/MRD/DP/15/2015 dated July 16, 2015
71. Circular No. CIR/CFD/CMD/12/2015 dated November 30, 2015.
72. Circular No. CIR/MRD/DP/ 36 /2016 dated February 15, 2016.
73. Circular No. CIR/MRD/DP/ 65 /2017 dated June 27, 2017
74. Circular No. CIR/MRD/DP/54/2017 dated June 13, 2017
75. Circular No. CIR/MRD/DP/86/2017 dated August 01, 2017
76. Circular No. CIR/MRD/DP/118/2017 dated October 26, 2017
77. Circular No. CIR/MRD/DP/122/2017 dated November 17, 2017
78. Circular No. SEBI/CIR/MRD/DoP-1/P/125/2018 dated August 24, 2018
79. Circular No. SEBI/HO/MRD/DOP I/CIR/P/2018/159 dated December 28, 2018