

# **Metropolitan Stock Exchange of India Limited**

(Formerly known as MCX Stock Exchange Ltd.)

## **METROPOLITAN STOCK EXCHANGE (CURRENCY DERIVATIVES SEGMENT) TRADING AND CLEARING REGULATIONS**



### **Metropolitan Stock Exchange of India Limited**

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# METROPOLITAN STOCK EXCHANGE OF INDIA LIMITED

## METROPOLITAN STOCK EXCHANGE (CURRENCY DERIVATIVES SEGMENT) TRADING AND CLEARING REGULATIONS

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- Annexures I to IV have been omitted with effect from May 2, 2011.
- Annexures V to VIII have been omitted with effect from January 9, 2012.



## **INTRODUCTION**

The Regulations framed hereunder shall be known as Metropolitan Stock Exchange (Currency Derivatives Segment) Trading and Clearing Regulations (herein after called “these Regulations”)

These Regulations shall be in addition to the provisions of the Securities Contracts (Regulations) Act, 1956 and the Rules made there-under, Securities and Exchange Board of India Act, 1992 and the Regulations made there-under, various circulars, notifications and directives issued by SEBI from time to time and the Rules and Byelaws of Metropolitan Stock Exchange of India Limited (MSEI), as may be applicable to Trading Members and Participants. Trading in currency derivatives are also subject to the directions/guidelines issued by RBI from time to time.

## **APPLICABILITY**

These Regulations shall be applicable to all Trading Members and Participants to the extent specified herein in the Currency Derivatives Segment of MSEI (hereinafter called “CD Segment”). They shall be subject to jurisdiction of the Courts of Mumbai irrespective of the place of business of Trading Members in India.

## 1. DEFINITIONS

**1.1** Unless in the context it is explicitly stated otherwise, all words and expressions used in these Regulations but not defined, and defined in the following, shall have the meanings respectively assigned to them therein:

- (1) Securities Contract (Regulations) Act, 1956 and the Rules made there-under
- (2) Securities and Exchange Board of India Act, 1992 and the Regulations made there-under
- (3) The Companies Act, 1956
- (4) The Depositories Act, 1996
- (5) Reserve Bank of India Act, 1934
- (6) Rules, Bye-laws of MSEI
- (7) Rules, Byelaws and/or Regulations of Clearing Corporation

**1.2** In case a term is defined in more than one acts then its meaning as defined in that act or statute which proceeds in the above order shall prevail, unless in the context it is explicitly stated otherwise.

### **1.3 DEFINITIONS**

#### **1.3.1 American Style option contract**

American Style option contract means an option contract which may be exercised on any day on or before the expiration day.

#### **1.3.2 Approved Office**

Approved office means the registered office of a Trading Member including such premises or offices from which the member is allowed by the CD Segment of the Exchange to trade on the Trading system and carry out back office work and other related works.

#### **1.3.3 Approved Workstation**

Approved workstation refers to such trading workstation of a Trading Member or a Participant comprising of computer terminal(s) and all associated equipment installed and connected to the Trading System and used by the trading member or the Participant for the purpose of market inquiry, execution of orders/trades and settlement of its trades in the CD Segment on the Trading System, and all other actions associated with the trading and settlement on the Trading System.

#### **<sup>1</sup>[1.3.4 Approved User**

Approved User is an individual appointed by a Trading Member in accordance with Chapter 2 of these Regulations.]

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<sup>1</sup> Substituted with effect from February 24, 2010

### **1.3.5 At the money or Near the money strike price**

‘At the money or Near the money’ strike price is the strike price of the option contract at or within such range of the underlying as may be specified by the Relevant Authority from time to time.

### **<sup>2</sup>[1.3.6 Authorised Person**

Authorised Person means a person who is an individual, a registered partnership firm, a limited liability partnership or a body corporate as defined under the Companies Act, 1956 or any other category of person(s) allowed by SEBI, who is appointed as such by a Trading Member after obtaining specific prior approval of the Exchange for providing access to trading platform of the Exchange, as an agent of the Trading Member.]

### **1.3.7 Books of Accounts, Records and Documents**

Books of accounts, records and documents include books of accounts, records and documents which are required to be maintained under Chapter 6 of these Regulations and records maintained in a computer or in any magnetic form.

### **<sup>3</sup>[1.3.8 Branch Office**

Branch office in relation to a Trading Member means:-

- (a) any establishment described as a branch;
- (b) any establishment carrying on either the same or substantially the same activity as that carried on by the head office;
- (c) any place where a trading terminal is provided by the Trading Member to an Authorised Person;
- (d) any other place which the Exchange may notify.]

### **1.3.9 Clearing Corporation**

Clearing Corporation for the purpose of these regulations means the Clearing Corporation or any other body which may be identified by the CD Segment of the Exchange for the purpose of performing the clearing and settlement of <sup>4</sup>[Derivatives Contracts traded in the CD Segment of the Exchange].

### **<sup>5</sup>[1.3.10 Clearing House**

Clearing House for the purpose of these Regulations means the Division dealing with Clearing and Settlements of the Derivatives Contracts traded on the CD Segment of the Exchange].

### **1.3.11 Clearing Member**

Clearing Member means a Member of the Clearing Corporation and includes all categories

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<sup>2</sup> Substituted with effect from February 24, 2010

<sup>3</sup> Substituted with effect from February 24, 2010

<sup>4</sup> Substituted with effect from May 2, 2011

<sup>5</sup> Substituted with effect from May 2, 2011

of Clearing Members as may be admitted as such to the CD Segment of the Exchange. In case of a Clearing Member who is also a Trading Member of the CD Segment the term Trading Member includes read as Clearing Member.

**1.3.12 Closing buy transaction**

Closing buy transaction means a buy transaction which will have the effect of partly or fully offsetting a short position.

**1.3.13 Closing sell transaction**

Closing sell transaction means a sell transaction which will have the effect of partly or fully offsetting a long position.

**1.3.14 Common Pool facility**

Common pool facility means the trading facilities created by the CD Segment of the Exchange at various places which could be made available for use by the Trading Member in the event of failure of trading facilities in his office or otherwise.

**1.3.14 Constituent**

A constituent means a person, on whose instructions and, on whose account, the Trading Member enters into any contract for the purchase or sale of any <sup>6</sup>[Derivatives Contracts] or does any act in relation thereto.

**Explanation:** For the purpose of these regulations, the term Constituent includes a Participant as defined under the Byelaws of the Exchange unless expressly stated otherwise.

**1.3.15 Contract Value**

Contract Value is the value arrived at by multiplying the strike price of the options contract with the regular or market lot size.

**1.3.16 Contract Month**

Contract month means the month in which these Regulations require a contract to be finally settled.

**1.3.17. Currency Futures**

Currency Futures means a standardized foreign exchange derivative contract traded on a recognized stock exchange to buy or sell one currency against another on a specified future date, at a price specified on the date of contract, but does not include a forward contract.

**1.3.18. Currency Futures Market**

Currency Futures Market means the market in which currency futures are traded.

**1.3.19. Deal, Transaction, Dealing and Contract**

For the purpose of these Regulations, the terms “deal”, “transaction”, “dealing” and “contract” shall have one and the same meaning unless the context indicates otherwise.

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<sup>6</sup> Substituted with effect from May 2, 2011

**1.3.20. Currency Derivatives Contract**

A contract which derives its value from the prices, or index of prices, of underlying securities including currencies, the trading of which shall be carried out in such manner as provided under these Regulations.

**Explanation:** For the purpose of this definition, Currency Derivatives includes a security derived from currency and index of prices of currency.

**1.3.21. Exercise**

Exercise means the invocation of right, in accordance with and subject to Rules, Byelaws and Regulations of Exchange, by the option holder.

**1.3.22. Exercise Price**

The Exercise Price or strike price is the price per unit of trading at which the option holder has the right either to buy or sell the underlying upon exercise of the option.

**1.3.23. Exercise Style**

Exercise Style of an option refers to the price at which and/or time as to when the option is exercisable by the holder. It may either be an American style option or an European style option or such other exercise style of option as the Relevant Authority may prescribe from time to time.

**1.3.24. Expiration Day**

The day on which the final settlement obligations are determined in a <sup>7</sup>[Derivatives Contract].

**1.3.25. Expiration time**

Expiration time is the close of business hours on the expiration day of the option contract or such other time as may be specified by the Relevant Authority from time to time.

**1.3.26. European Style option contract**

European Style option contract means an option contract which may be exercised on the expiration day.

<sup>8</sup>**[1.3.27. Derivatives Contract**

A Derivatives Contract means a contract that derives its value from the underlying security/currency and which is for the time being, admitted to dealing on the CD Segment].

<sup>9</sup>**[1.3.27A Deliverable Grade Securities**

For the purpose of these Regulations, the term “Deliverable Grade Securities” shall mean those securities as may be prescribed by the CD Segment for settlement from time to

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<sup>7</sup> Substituted with effect from May 2, 2011

<sup>8</sup> Substituted with effect from May 2, 2011

<sup>9</sup> Inserted with effect from May 2, 2011

time.]

**1.3.28. In the money strike price**

In the money strike price, in case of Put Option, is the strike price of the option contract which is above ‘At the money or Near the money’ strike price. In the money strike price, in case of Call Option, is the strike price of the option contract which is below ‘At the money or Near the money’ strike price.

<sup>10</sup>**1.3.28A Interest Rate Futures**

Interest Rate Futures means a standardized interest rate derivative contract traded on a recognized stock exchange to buy or sell interest bearing instrument(s) on a specified future date, at a price specified on the date of contract, but does not include a forward contract.

**1.3.28B Interest Rate Futures Market**

Interest Rate Futures Market means the market in which Interest Rate Futures are traded.]

**1.3.29. Last Trading Day**

Last Trading Day means the day upto and on which a <sup>11</sup>[Derivatives Contract] is available for trading.

**1.3.30. Long Position**

Long Position in a <sup>12</sup>[Derivatives Contract] means outstanding purchase obligations in respect of a permitted <sup>13</sup>[Derivatives Contract] at any point of time.

**1.3.31. Market Type**

Market type refers to the different markets in which trading is permitted on the Trading system.

**1.3.32. Member-Constituent Agreement**

Member-Constituent agreement is an agreement which is executed between a Trading Member and its constituent as per these Regulations.

**1.3.33. Members’ Open Position**

Members’ open position means the sum of long and short positions of the Member and his constituents in any or all of the <sup>14</sup>[Derivatives Contracts] outstanding with the Clearing Corporation or the Clearing House.

**1.3.34. Notification, Notice Or Communication**

It refers to any such intimation that can be served by the CD Segment of the Exchange to the Trading Member at ordinary business address and/or ordinary place of residence

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<sup>10</sup> Inserted with effect from May 2, 2011

<sup>11</sup> Substituted with effect from May 2, 2011

<sup>12</sup> Substituted with effect from May 2, 2011

<sup>13</sup> Substituted with effect from May 2, 2011

<sup>14</sup> Substituted with effect from May 2, 2011

and/or last known address of the party in any one or more or all of the following ways:-

- (a) delivering it by post
- (b) sending it by registered post
- (c) ending it under certificate of posting
- (d) sending it by express delivery post / courier services
- (e) sending it by telegram
- (f) affixing it on the door at the last known business or residential address
- (g) advertising it at least once in any prominent daily newspaper
- (h) sending a message through the Trading System of MSEI
- (i) an electronic mail or fax

**1.3.35. MSEI**

MSEI means the Metropolitan Stock Exchange of India Limited. The terms MSEI and Exchange are used interchangeably.

**1.3.36. Opening buy transaction**

Opening buy transaction means a buy transaction which will have the effect of creating or increasing a long position.

**1.3.37. Opening sell transaction**

Opening sell transaction means a sell transaction which will have the effect of creating or increasing a short position.

<sup>15</sup>**1.3.38. Open Interest**

Open Interest means the total number of Derivatives Contracts of an underlying security/currency that have not yet been offset and closed by an opposite Derivatives transaction nor fulfilled by delivery of the cash or underlying or option exercise. For calculation of Open Interest only one side of the Derivatives Contract is counted.]

**1.3.39. Option Class**

Option contracts of the same type and style that cover the same underlying constitute an option class.

<sup>16</sup>**1.3.40. Option Contract**

Option Contract is a type of Derivatives Contract which gives the buyer/holder of the contract the right (but not the obligation) to buy/sell the underlying at a predetermined price within or at end of a specified period. The option contract which gives a right to buy is called a Call Option and the option contract that gives a right to sell is called a Put Option.]

**1.3.41. Option Holder**

Option holder is a person who has bought an option contract.

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<sup>15</sup> Substituted with effect from May 2, 2011

<sup>16</sup> Substituted with effect from May 2, 2011

**1.3.42. Option Seller**

Option seller is a person who has sold an option contract.

**1.3.43. Option Writer**

Option Writer means a Trading Member who is permitted by the CD Segment of the Exchange to write Options contracts.

**1.3.44. Out of the money strike price**

Out of the money strike price, in case of Put Option, is the strike price of the option contract which is below 'At the money or Near the money' strike price. Out of the money strike price, in case of Call Option, is the strike price of the option contract which is above 'At the money or Near the money' strike price.

**1.3.45. Outstanding Obligation**

Outstanding Obligation means the obligation which has neither been closed out nor been settled.

**1.3.46. Participant**

Participant refers to such users as may be specified or approved by the relevant authority from time to time with regard to trading, clearing, settlement and other support services including constituents, approved users, Clearing banks, technology vendors and such other service providers as the relevant authority may decide from time to time in the manner provided under Chapter VII of the Byelaws of the Exchange.

**1.3.47. Permitted Currency Derivatives Contract**

Permitted Currency Derivatives Contract is a contract which is permitted to be traded on the CD Segment of the Exchange.

<sup>17</sup>**1.3.47A Permitted Interest Rate Derivatives Contract**

Permitted Interest Rate Derivatives Contract is a contract which is permitted to be traded on the CD Segment of the Exchange.]

**1.3.48. Premium**

Premium is the price which the buyer of the option pays to the seller of the option for the rights conveyed by the option contract.

**1.3.49. Regular Lot/Market Lot Size**

Regular Lot/Market Lot Size means the number of units that can be bought or sold in a specified <sup>18</sup>[Derivatives Contract] as may be specified by the Relevant Authority of CD Segment of the Exchange from time to time.

**1.3.50. Risk Disclosure Document**

Risk Disclosure Document refers to the document to be issued to all potential investors

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<sup>17</sup> Inserted with effect from May 2, 2011

<sup>18</sup> Substituted with effect from May 2, 2011



at the time of registration for disclosure of the risks inherent to <sup>19</sup>[Derivatives, which shall be in such format as may be prescribed by the CD Segment].

**1.3.51. Series of Options**

Series of Options means all options of the same class having the same exercise price and expiration day.

**1.3.52. Settlement Date**

Settlement Date means the date on which the settlement of outstanding obligations in a permitted <sup>20</sup>[Derivatives Contract] are required to be settled as provided in these Regulations.

<sup>21</sup>**1.3.53. Settlement price**

Settlement Price shall be the price determined in terms of the formulations specified by the relevant authority from time to time.]

**1.3.54. Short Position**

Short position in a <sup>22</sup>[Derivatives Contract] means outstanding sell obligations in respect of a permitted <sup>23</sup>[Derivatives Contract] at any point of time.

**1.3.55. Strike Price Interval**

Strike price interval is the gap between any two successive strike prices which the Relevant Authority may prescribe from time to time.

**1.3.56. Trading cycle**

Trading cycle means the period, as notified by the CD Segment of the Exchange from time to time, during which the <sup>24</sup>[Derivatives Contract] will be available for trading.

**1.3.57. Trading Member**

Trading Member refers to an entity as defined under Chapter VI of the Byelaws of the Exchange.

**1.3.58. Trade Type**

Trade type is the type of trade as may be permitted by the CD Segment of the Exchange from time to time for each Market Type.

**1.3.59. Trading System**

Trading System refers to Automated Trading System of the CD Segment of the Exchange. ATS stands for Automated Trading System.

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<sup>19</sup> Substituted with effect from May 2, 2011

<sup>20</sup> Substituted with effect from May 2, 2011

<sup>21</sup> Substituted with effect from May 2, 2011

<sup>22</sup> Substituted with effect from May 2, 2011

<sup>23</sup> Substituted with effect from May 2, 2011

<sup>24</sup> Substituted with effect from May 2, 2011

**1.3.60. Type of option**

Type of option means the classification of an option as either a put or a call.

<sup>25</sup>**[1.3.61. Underlying**

Underlying in relation to a Derivatives Contract means the securities, currencies or any other asset as may be prescribed by the CD Segment from time to time.]

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<sup>25</sup> Substituted with effect from May 2, 2011

## 2. DEALINGS ON THE CD SEGMENT OF THE EXCHANGE

### 2.1 TRADING SYSTEM

- 2.1.1 The CD Segment of the Exchange shall provide an Automated Trading facility in all the <sup>26</sup>[Derivatives Contract] admitted for dealings on the Currency Derivatives Segment. Such a system shall hereinafter be referred to as ATS system.
- 2.1.2 Trading on the CD Segment of the Exchange shall be allowed only through approved Workstation(s) located at approved locations for the office of a Trading Member. If an approved workstation of a Trading Member is connected by LAN or any other way to other workstations at any place, it shall require an approval of the CD Segment of the Exchange.
- 2.1.3 Each Trading Member/Participant shall have a unique identification number which shall be provided by the CD Segment of the Exchange and which shall be used to log on (sign on) to the ATS system.
- 2.1.4 A Trading Member/ Participant shall have a non-exclusive permission to use the Trading system as provided by the CD Segment of the Exchange in the ordinary course of business as Trading Member/Participant.
- 2.1.5 A Trading Member / Participant shall not have any title, rights or interest with respect to Trading System, its facilities, software and the information provided by the ATS system.
- 2.1.6 The Trading System
- (a) shall be made available to the Trading Member for trading subject to such terms and conditions as the Relevant Authority may determine from time to time, inter alia, payment of such charges as may be specified from time to time and taking up the clearing membership or having arrangements with Professional Clearing Members of the Clearing Corporation or the Clearing House of the Exchange
- (b) access shall be withdrawn or restricted by the Relevant Authority for noncompliance with any of these regulations.
- 2.1.7 The Trading Member shall use such equipment and software as specified by the CD Segment of the Exchange from time to time for the purpose of accessing ATS System.
- 2.1.8 The CD Segment of the Exchange shall have the right to inspect equipment and software used for the purpose of accessing ATS system.
- 2.1.9 The cost of equipment and software supplied by the CD Segment of the

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<sup>26</sup> Substituted with effect from May 2, 2011

Exchange, installation and maintenance of the equipment shall be borne by the Trading Member.

- 2.1.10 A Trading Member/ Participant shall not, permit itself or any other person(s) to:
- (a) use the software provided by the CD Segment of the Exchange for any purpose other than the purpose as approved and specified by the CD Segment of the Exchange
  - (b) use the software provided by the CD Segment of the Exchange on any equipment other than the workstation approved by the CD Segment of the Exchange
  - (c) copy, alter, modify or make available to any other person the software provided by the CD Segment of the Exchange
  - (d) use the software in any manner other than the manner as specified by the CD Segment of the Exchange
  - (e) attempt directly or indirectly to decompile, disassemble or reverse engineer the same.
- 2.1.11 Trading Member shall adopt such security procedures pertaining to connection to the trading system as may be specified by the CD Segment of the Exchange from time to time.
- 2.1.12 A Trading Member /Participant shall not, by himself or through any other persons on his behalf, publish, supply, show or make available to any other person other than SEBI and other statutory authorities, or reprocess, retransmit, store or use the facilities of the Trading System or the information provided by the Trading System except with the explicit approval of the CD Segment of the Exchange and in the ordinary course of business to complete the transactions on the CD Segment of the Exchange.
- 2.1.13 The CD Segment of the Exchange shall provide its services on a best effort basis. However the CD Segment of the Exchange shall not be liable for failure of the ATS system or for any loss, damage, or other costs arising in any way out of:
- (a) Telecom network or system failures including failure of ancillary or associated support systems provided by the exchange or support agencies, or fluctuation of power, or other environmental conditions or destruction of any data;
  - (b) Accident, transportation, neglect, misuse, errors, frauds of the Trading Member Participant or the agents or any third party;
  - (c) Any fault in any attachments or associated equipment (either supplied by the CD Segment of the Exchange or approved by the CD Segment of the Exchange) which forms or does not form part of the trading workstation installation;
  - (d) Act of God, natural calamity, fire, flood, war, act of violence, or any other similar

occurrence;

(e) Any incidental, special or consequential damages.

2.1.14 Without prejudice to anything contained in 2.1.13, such failure shall not reduce, alter or affect the liability of the Trading Member/Participant in respect of any trades to which it is a party.

2.1.15 The CD Segment of the Exchange may also permit common pool facility to Trading Members as per the norms as may be specified by it in case of failure of terminal of Trading Member.

2.1.16 (a) A Trading Member shall not deal with other Trading Members of the Exchange either for proprietary trading or for trading on behalf of Clients, except with the prior permission of the Exchange granted on the request of such Trading Member.

(b) The Exchange while giving permission under clause (a) shall consider the reasons stated by the Trading Member and after carrying out due diligence allow such Trading Member to deal with only one Trading Member of the Exchange.

(c) A Trading Member of the Exchange can deal with only one Member of another stock exchange for proprietary trading after intimating the name of such Member to his parent stock exchange.

(d) A Trading Member of the Exchange can deal with only one Member of another exchange on behalf of clients after obtaining necessary registration as a sub broker, if allowed, from the Securities and Exchange Board of India.

## <sup>27</sup>[2.2 TRADING MEMBERS, APPROVED USERS AND AUTHORISED PERSONS]

<sup>28</sup>[2.2.1 Subject to the provisions of this Chapter, Trading Members may appoint, with the specific prior approval of the Exchange, Authorised Person(s) for providing access to the CD Segment of the Exchange, as an agent of the Trading Member, subject to payment of such approval fee as may be specified by the Relevant Authority from time to time.]

<sup>29</sup>[2.2.1A Trading Members and their Authorised Persons may appoint, with the approval of the Exchange, Approved Users to operate their Trading Workstation(s), subject to payment of such approval fee as may be specified by the Relevant Authority from time to time.]

<sup>30</sup>[2.2.2 The Authorised Person may receive his remuneration whether by way of fees, charges, commission, salary or otherwise for his services only from the Trading

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<sup>27</sup> Substituted with effect from February 24, 2010

<sup>28</sup> Substituted with effect from February 24, 2010

<sup>29</sup> Inserted with effect from February 24, 2010

<sup>30</sup> Substituted with effect from February 24, 2010

Member and he shall not charge any amount from the Constituents.]

<sup>31</sup>[2.2.3 Approved Users on the CD Segment should have passed the certification program which has been approved by SEBI.]

2.2.4 Each Trading Member/ Participant shall be permitted to appoint such number of approved users as may be notified from time to time by the CD Segment of the Exchange.

2.2.5 The appointment of Approved users shall be subject to such terms and conditions as the CD Segment of the Exchange may from time to time specify.

2.2.6 Each approved user shall be given a unique identification number through which he shall have access to the ATS system.

2.2.7 An approved user can access the ATS system through a password and can change such password from time to time

2.2.8 A Trading Member /Participant or its approved users thereof shall maintain complete secrecy of its password.

2.2.9 An approved user shall be required to change his password at the end of the password expiry period. The password expiry period shall be specified by the CD Segment of the Exchange from time to time.

2.2.10 (a) Only persons who are registered as Trading Members and Participants in accordance with provisions of the Byelaws, Rules and Regulations of the Exchange are agents of Trading Members, for whom an application has been made to the Exchange by the Trading Members in accordance with the format specified by the Relevant Authority of the Exchange from time to time, may be approved as Users.

(b) No person shall be admitted as an approved user who is under <sup>32</sup>[18 years of age.]

(c) No person shall be admitted as an approved user against whom any disciplinary action has been taken by the Exchange or any other Stock Exchange.

(d) No Trading Member / Participant shall without permission of the CD Segment of the Exchange take into his employment a former Trading Member or approved user of such Trading Member as an approved user, if such Trading Member or approved user is one against whom any disciplinary action has been taken by the Exchange or any other Stock Exchange.

(e) No person shall be admitted as an approved user unless he has passed Certification course as approved by SEBI. The Certification obtained should be valid for the

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<sup>31</sup> Substituted with effect from February 24, 2010

<sup>32</sup> Substituted with effect from August 17, 2011

period specified by the CD Segment of the Exchange from time to time. On the Certification becoming invalid due to any reason, the User Id shall stand terminated. It shall be the responsibility of the approved user to inform the CD Segment of the Exchange of the expiry of the Certification, if any.

<sup>33</sup>[2.2.11.1 No individual shall be appointed as an Authorised Person unless he:

- a) is a citizen of India;
- b) is not less than 18 years of age;
- c) has passed at least 10<sup>th</sup> standard or equivalent examination from an institution recognized by the Government;
- d) has not been convicted of any offence involving fraud or dishonesty;
- e) has good reputation and character;
- f) has not been expelled or declared defaulter by any stock exchange in the country, except if he has been readmitted by the relevant stock exchange;
- g) is or was not debarred or prohibited from associating with securities market or from dealing in securities in any manner whatsoever by SEBI or any other competent authority, tribunal or court and the period of debarment or prohibition is not over;
- h) is not or has not been a partner or director, of any expelled member or member declared defaulter, at the time of the expulsion or declaration, as the case may be, by any of the stock exchanges in the country, except if such member has been readmitted by the relevant stock exchange;
- i) is not or has not been a partner or director of any entity who is or was debarred or prohibited from associating with securities market or from dealing in securities in any manner whatsoever by SEBI or any other competent authority, tribunal or court, and the period of debarment or prohibition is not over;
- j) is not an Approved User or Sub broker or Authorised Person or employee of any other Trading Member;
- k) has and continues to have NISM certification or any other certification prescribed by SEBI, as being essential for carrying on such activity.]

<sup>34</sup>[2.2.11.1A No registered partnership firm, or a body corporate as defined under the Companies Act 1956 or a limited liability partnership is eligible to be appointed as an Authorised Person unless:-

- a) all the partners of the firm or limited liability partnership and all the directors of the company comply with all the eligibility criteria listed out at clauses a) to j) of regulation 2.2.11.1 above
- b) all the partners/ directors satisfies all the conditions at clause k) of regulation 2.2.11.1 above
- c) the firm and the company satisfies all the conditions from clauses d) to j) of

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<sup>33</sup> Substituted with effect from February 24, 2010

<sup>34</sup> Inserted with effect from February 24, 2010

regulation 2.2.11.1 above, to the extent those provisions are applicable to them.

- d) the provisions of the partnership deed of the firm or limited liability partnership or main object clause of the Memorandum of Association of the company shall enable the registered firm or the company, as the case may be, to undertake securities business.]

<sup>35</sup>[2.2.11.1B Authorised Persons shall have the necessary infrastructure like adequate office space, equipment and manpower to effectively discharge the activities on behalf of the Trading Member.]

<sup>36</sup>[2.2.11.1C The Exchange may prescribe such other additional conditions in regard to appointment of Authorised Persons as it may deem fit from time to time and the Trading Members shall be bound to comply with the same.]

<sup>37</sup>[2.2.11.1D Authorised Person(s) shall comply with the Rules, Bye-laws, Regulations and Circulars of the Exchange. The Trading Member shall ensure that the Authorised Person appointed by him complies with the Rules, Bye-laws, Regulations and Circulars of the Exchange and with the requirements relating to Authorised Person as laid down by SEBI/ the Exchange, on an ongoing basis.]

<sup>38</sup>[2.2.11.1E The Authorised Person shall not receive nor pay any money and/or securities in his own name or account. All receipts and payments of securities and funds shall be in the name or account of the Trading Member only.]

<sup>39</sup>[2.2.11.1F A person shall not be appointed as Authorised Person by more than one Trading Member of the Exchange.]

<sup>40</sup>[2.2.11.1G A partner or director of an Authorised Person shall not be appointed as an Authorised Person of the same or any other Trading Member of the Exchange.]

<sup>41</sup>[2.2.11.1H The Trading Member and Authorised Person shall enter into written agreement(s) in the form(s) specified by the Exchange.]

<sup>42</sup>[2.2.11.2 Approval given to an Authorised Person may be withdrawn by the Exchange:

- i) on being satisfied that the continuation of Authorised Person is detrimental to the interest of investors or securities market; or

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<sup>35</sup> Inserted with effect from February 24, 2010

<sup>36</sup> Inserted with effect from February 24, 2010

<sup>37</sup> Inserted with effect from February 24, 2010

<sup>38</sup> Inserted with effect from February 24, 2010

<sup>39</sup> Inserted with effect from February 24, 2010

<sup>40</sup> Inserted with effect from February 24, 2010

<sup>41</sup> Inserted with effect from February 24, 2010

<sup>42</sup> Substituted with effect from February 24, 2010



- ii) on being satisfied that the Authorised Person has, subsequent to the approval granted by the Exchange, become ineligible to continue as such under criteria laid down in regulation 2.2.11.1 or 2.2.11.1A, as the case may be, or under regulation 2.2.11.1B or 2.2.11.1C; or
- iii) on receipt of a request to that effect from the Trading Member or the Authorised Person, subject however to compliance with the requirements prescribed by the Exchange; or
- iv) on being satisfied that the approval was obtained by misrepresentation or fraud.
- v) Without prejudice to the above, the Exchange may take disciplinary action against the Authorised Person under provisions of the Rules.]

2.2.11.3 Without prejudice to the generality of the above, the CD Segment of the Exchange may withdraw any recognition granted to such authorised person after giving an opportunity, if

- (a) he fails to abide by the Byelaws, Rules, Regulations and the guidelines or circulars thereunder
- (b) he violates / contravenes any statute or the Rules or Regulations made thereunder.

2.2.11.4 Notwithstanding anything contained in Regulations 2.2.11.2 and 2.2.11.3, an authorised person shall cease to be so, ipso facto, on

- (a) the Trading Member to whom he is attached ceases to be a Trading Member or
- (b) on the expiry/ cessation of his contract of employment with such Trading Member.

<sup>43</sup>[2.2.11.5 Any dispute between a Constituent and an Authorised Person shall be treated as a dispute between the Constituent and the Trading Member.]

2.2.12 Trading Member/Participant desiring to change the User Id or cancel the authority given to its approved user to operate the trading system on its behalf shall intimate the CD Segment of the Exchange in writing, in such form and manner as the Currency Derivatives Segment of the Exchange may specify, immediately on taking such action and obtain confirmation from the CD Segment of the Exchange of having received such intimation, and of the disabling of the particular approved user by the CD Segment of the Exchange. However the Trading Member/Participant shall continue to be liable for all the activities reported on the basis of such or previous User Id undertaken up to a period of 24 hours after his

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<sup>43</sup> Inserted with effect from February 24, 2010

obtaining a confirmation as mentioned above from the CD Segment of the Exchange. The Trading Member shall cancel all his outstanding orders in respect of such approved user.

- 2.2.13 Whenever an approved user of the Trading Member/Participant ceases to act in such or any capacity with the Trading Member then each such Trading Member shall inform the CD Segment of the Exchange, within 24 hours, the name and other particulars of such approved user.
- 2.2.14 No application shall be made by any Trading Member/Participant under 2.2.10 (a), if such a person for whom such an application is made, is already an approved user for any other Trading Member/ Participant.
- 2.2.15 The CD Segment of the Exchange shall notify different levels of the approved users for each workstation provided. These levels shall define the access to the ATS system by the approved users and shall include a provision for inquiry only on the terminal, provision for order entry and trading, or such others as may be specified by the CD Segment of the Exchange.
- 2.2.16 The CD Segment of the Exchange may change the status of the approved user of the Trading Member from Trader to Inquiry only where circumstances warrant and intimate to such Trading Member any reasons thereof.
- 2.2.17 Trading Member/Participant shall not access the trading system using a different Trading Member/Participant or User Id other than the one allotted to him.
- 2.2.18 An approved user shall not attempt to aid in or access the trading system using the Trading Member code from a location other than the Trading Member's location, unless he has the express prior approval of the Trading Member for whom he is an approved user.
- 2.2.19 A Trading Member/ Participant who wants the CD Segment of the Exchange to reset his password, has to make a request in writing signed by the Trading Member/ Participant indicating his Trading Member ID and User Id. A Trading Member/ Participant shall not make a request for resetting the password of any other Trading Member/Participant.

## **2.3 Trading Days**

- 2.3.1 The CD Segment of the Exchange shall operate on all days except Saturdays, Sundays and on such Exchange holidays as the CD Segment of the Exchange may declare from time to time.
- 2.3.2 The CD Segment of the Exchange may close the market on days other than or in addition to scheduled holidays or open the market on days originally declared to be

holidays under 2.3.1 to be called unscheduled opening or closing of the markets or Segments and the decision of the CD Segment of the Exchange in this matter shall be final and binding.

2.3.3 Other than the regular trading hours, members shall be provided a facility to place orders off- line i.e. outside trading hours. They shall be stored by the system but shall get traded only once the market opens for trading on the following working day.

2.3.4 A trading day shall be typically divided into five periods, as specified by the CD Segment of the Exchange. The periods would be as follows:-

- (a) **Pre-open Period:** This period shall precede the open period and shall primarily serve as an indicator to market participants about the likely market sentiment for that trading day. In this period the members can enter buy and sell orders simultaneously, modify or cancel the orders, but no execution of the orders can take place.
- (b) **Opening Period:** - In this period the actual matching for <sup>44</sup>[Derivatives Contracts] shall commence. All trades pertaining to the pre - open period shall be executed at a single trade price which is the price of the last trade during the pre - open period.
- (c) **Open Period:** - In this period the orders would be matched according to the price/time priority.
- (d) **Market Close:** - This period shall be the period before batch processing and initiating settlement data generation. No more orders shall be accepted in this period. Inquiries on the activities during the day can be made during the period.
- (e) **Post Close and Market shutdown:-** This period shall immediately follow the start of settlement data generation. During this period the closing price of the <sup>45</sup>[Derivatives contract(s) and their respective underlying] shall be calculated.

## 2.4 TRADING HOURS

2.4.1 The CD Segment of the Exchange shall announce the regular trading hours for every calendar year in advance.

2.4.2 The CD Segment of the Exchange may extend, advance or reduce trading hours by notifying Trading Members as and when it deems fit and necessary in this regard.

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<sup>44</sup> Substituted with effect from May 2, 2011

<sup>45</sup> Substituted with effect from May 2, 2011

## <sup>46</sup>[2.5      **TRADING CYCLE**

Trading Cycle for each Derivatives Contract will have a standard period during which the Derivatives Contract will be available for trading which shall be notified by the CD Segment of the Exchange from time to time.]

## **2.6      CONTRACT EXPIRATION**

2.6.1      <sup>47</sup>[Derivatives Contracts] will expire on a pre-determined date and time upto which the contract will be available for trading which shall be notified by the CD Segment of the Exchange in advance.

2.6.2      The contract expiration period shall not exceed twelve months or as may be specified by SEBI from time to time.

## **2.7      TRADING PARAMETERS**

2.7.1      The CD Segment of the Exchange shall from time to time specify various trading parameters relating to the Trading System.

2.7.2      Every trading member will be required to specify the buy or sell orders as either an open order or a close order.

2.7.3      The CD Segment of the Exchange shall from time to time may specify one or more order books that shall be maintained on the Trading System and shall specify such various conditions on the order that shall make it eligible to place it in those books.

2.7.4      The CD Segment of the Exchange shall specify the number of days after which Good Till Cancelled orders shall be cancelled by the system.

2.7.5      The CD Segment of the Exchange shall specify from time to time the lot size in which orders can be placed for any or all <sup>48</sup>[Derivatives Contracts] traded on the CD Segment of the Exchange.

2.7.6      The CD Segment of the Exchange shall specify from time to time price steps in which orders shall be entered on the trading system of the CD Segment of the Exchange.

2.7.7      The CD Segment of the Exchange shall lay down position limits in respect of each contract from time to time.

2.7.8      The CD Segment of the Exchange shall specify the price fluctuations for each

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<sup>46</sup> Substituted with effect from May 2, 2011

<sup>47</sup> Substituted with effect from May 2, 2011

<sup>48</sup> Substituted with effect from May 2, 2011

<sup>49</sup>[Derivatives Contract].

## **2.8 MARKET TYPES / TRADE TYPES / TRANSACTION TYPES**

- 2.8.1 The CD Segment of the Exchange shall permit and notify different kinds of trades in permitted <sup>50</sup>[Derivatives Contracts].
- 2.8.2 The CD Segment of the Exchange shall specify from time to time different market types, trade types that shall be permitted to Trading Members or Participants for dealings in <sup>51</sup>[Derivatives Contracts].
- 2.8.3 All trades executed on the CD Segment of the Exchange shall be cleared and settled by the Trading Members either by themselves as Clearing Members or through Professional Clearing Members in accordance with the byelaws, rules and regulations of the specified Clearing Corporation as may be notified by it from time to time.
- 2.8.4 The CD Segment of the Exchange shall allow from time to time different transaction types.

## **2.9 FAILURE OF TRADING MEMBERS' TERMINAL**

In the event of failure of Trading Members' / Participants' workstation and / or the loss of access to the trading system, the CD Segment of the Exchange may at its discretion undertake on behalf of the Trading Member / Participant (although not guarantee) to carry out the necessary functions which the Trading Member / Participant is eligible on a valid request from such Trading Member / Participant subject to such terms and conditions which the CD Segment of the Exchange may deem necessary to be imposed. The CD Segment of the Exchange shall entertain such request only if such request is made in writing in a clear and precise manner by the Trading Member and in a manner as specified by the CD Segment of the Exchange. The Trading Member / Participant shall be accountable for the functions executed by the CD Segment of the Exchange on their behalf and shall indemnify the CD Segment of the Exchange against any losses or costs arising out of the above situation.

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<sup>49</sup> Substituted with effect from May 2, 2011

<sup>50</sup> Substituted with effect from May 2, 2011

<sup>51</sup> Substituted with effect from May 2, 2011

### 3. DEALINGS IN <sup>52</sup>[DERIVATIVES CONTRACTS]

#### 3.1 DEALINGS IN <sup>53</sup>[DERIVATIVES CONTRACTS]

- 3.1.1 Dealings shall be permitted on the Currency Derivatives Segment of the Exchange in <sup>54</sup>[Derivatives Contracts] as provided for in these Rules, Bye-laws and Regulations of the Currency Derivatives Segment of the Exchange and for such categories of Trading Members / Participants in such market types, trade types and trading hours as the Currency Derivatives Segment of the Exchange may specify from time to time.
- 3.1.2 The Relevant Authority may from time to time introduce new contracts at such strike prices ('in the money', 'at the money or near the money' and 'out of the money') for put / call options respectively for every month after the expiry of the previous month contracts.
- 3.1.3 The Relevant Authority may from time to time introduce one or more new contract(s) at new strike prices for both call and put options respectively as and when the prices of the underlying changes beyond pre-defined parameters prescribed by it.
- 3.1.4 The Relevant Authority may from time to time prescribe the criteria for underlying with reference to which the option contracts shall be permitted to be traded on the CD Segment of the Exchange.
- 3.1.5 All <sup>55</sup>[Derivatives Contract] specifications will be notified by the CD Segment of the Exchange from time to time.
- 3.1.7 The Relevant Authority may from time to time prescribe the exercise style of an option.
- 3.1.8 The Relevant Authority may at any time introduce additional series of option contracts with different exercise prices based on changes in the value of the underlying or such other factors and circumstances including investor interest, market conditions, etc. as may be decided from time to time.
- 3.1.9 The CD Segment of the Exchange may at its discretion suspend trading in <sup>56</sup>[Derivatives Contracts], inter alia, on the following grounds:

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<sup>52</sup> Substituted with effect from May 2, 2011

<sup>53</sup> Substituted with effect from May 2, 2011

<sup>54</sup> Substituted with effect from May 2, 2011

<sup>55</sup> Substituted with effect from May 2, 2011

<sup>56</sup> Substituted with effect from May 2, 2011

- (a) for protection of the interests of the investors ;
- (b) for the purpose of maintaining a fair and orderly market.

- 3.1.10 If the Relevant Authority is of the opinion that a particular underlying no longer meets its requirements for options trading or is not eligible for trading or if the Relevant Authority decides to discontinue trading in a particular options series for such reason(s) as it may deem fit, it may stop introducing new options on that underlying and may in such circumstances impose restrictions on transactions that open new positions in options series that have been previously introduced.
- 3.1.11 The Relevant Authority may discontinue trading in a particular option contract if there are no open positions in such a contract.
- 3.1.12 The Relevant Authority may limit the total number of puts or calls on the same underlying that a single investor or group of investors acting in concert may exercise during such time period as may be prescribed by the Relevant Authority from time to time. The Relevant Authority may also limit the maximum number of options on the same side of the market (i.e., calls held plus puts written or puts held plus calls written) with respect to a single underlying that may be carried in the accounts of a single investor or group of investors acting in concert.
- 3.1.13 The CD Segment of the Exchange may also revoke suspension of trading in <sup>57</sup>[Derivatives Contracts] at any time. If trading has been suspended or halted in particular or all <sup>58</sup>[Derivatives Contracts], the CD Segment of the Exchange may determine in its absolute discretion when trading in the respective <sup>59</sup>[Derivatives Contracts] may be resumed.
- 3.1.14 Trading Members may trade on the Trading System in <sup>60</sup>[Derivatives Contracts], either on behalf of their constituents or on their own account unless otherwise specified by the Relevant Authority and trading shall be subject to such conditions as the CD Segment of the Exchange may specify from time to time.

For the purpose of this regulation, for transactions entered into on behalf of the director or an employee of the Trading Member or for transactions in which the director or employee has beneficial interest, such director or employee shall be considered as a constituent of the Trading Member and margins shall be collected from each such constituent separately.

- 3.1.15 When a Trading Member enters an order on behalf of a Mutual Fund or any of its Schemes, then such a Trading Member shall at the time of entering orders on behalf of such clients, enter the unique code in respect of such Mutual Fund or its

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<sup>57</sup> Substituted with effect from May 2, 2011

<sup>58</sup> Substituted with effect from May 2, 2011

<sup>59</sup> Substituted with effect from May 2, 2011

<sup>60</sup> Substituted with effect from May 2, 2011

Scheme, in such format and with effect from such date as may be notified by the Exchange.

- <sup>61</sup>[3.1.16 The Trading Member cannot utilise the funds and securities of one constituent for and on behalf of another constituent except on specific authorisation of the constituent whose funds or securities are utilised and subject to such conditions as may be specified by SEBI and the Stock Exchange from time to time.]
- 3.1.17 The CD Segment of the Exchange may, at any time restrict conditionally or unconditionally a Trading Member/Participant from dealing in a specified <sup>62</sup>[Derivatives Contract].
- <sup>63</sup>[3.1.18 The Trading Member / Participant shall be liable for all orders placed and trades executed through his trading terminals. The Trading Member/Participant shall be responsible for all acts of omission and commission of his Authorised Person(s) and/or their employees, including liabilities arising there from and all the acts of omission and commission of the Authorised Person or their employees shall be deemed to be those of the Trading Member.]
- <sup>64</sup>[3.1.18A. If any trading terminal is provided by the Trading Member to his Authorised Person, the place where such trading terminal is located shall be treated as branch office of the Trading Member.]
- <sup>65</sup>[3.1.18B. The Trading Member shall notify changes, if any, in the Authorised Person to all registered Constituents of the relevant branch office at least thirty days before the change.]
- <sup>66</sup>[3.1.18C. The Trading Member shall conduct periodic inspection of branches assigned to Authorised Persons including with reference to records of the operations carried out by them.]
- <sup>67</sup>[3.1.18D. The Constituents shall be registered with the Trading Member only. The funds and securities of the Constituents shall be transferred directly between Trading Member and Constituent and all documents like contract note and statement of funds and securities would be issued to Constituents by the Trading Member. Authorised Person may provide administrative assistance in procurement of documents and settlement, but shall not issue any document to Constituent in his own name. No fund/securities of Constituents shall be transferred to the name and/or account of Authorised Person.]

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<sup>61</sup> Substituted with effect from June 15, 2012

<sup>62</sup> Substituted with effect from May 2, 2011

<sup>63</sup> Substituted with effect from February 24, 2010

<sup>64</sup> Inserted with effect from February 24, 2010

<sup>65</sup> Inserted with effect from February 24, 2010

<sup>66</sup> Inserted with effect from February 24, 2010

<sup>67</sup> Inserted with effect from February 24, 2010



<sup>68</sup>[3.1.18E. On noticing irregularities, if any, in the operations of Authorised Person, the Trading Member shall seek withdrawal of approval of the Exchange, withhold all moneys due to Authorised Person till resolution of investor problems, alert investors in the location where Authorised Person operates, file a complaint with the police and take all measures required to protect the interest of investors and market.]

<sup>69</sup>[3.1.18F. Any proposed change relating to the Authorised Person including change of status or constitution as laid down in regulation 2(ab) of Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992 shall be notified to the Exchange at least 30 days in advance in the format prescribed by the Exchange and also immediately after effecting such changes

Provided that, in case of any change in the legal form of the authorized person, the member shall ensure that the existing approval for appointment of the authorized person is withdrawn by the Exchange and a fresh approval is granted by the Exchange for his appointment in the new legal form. The Member shall make requisite applications to the Exchange simultaneously with the intimation made under the above clause

3.1.19 Without prejudice to regulation 4.5.3 (c) and (d), a Trading Member shall be responsible for all the actions including trades originating through or with the use of all following variables - Trading Member Id and User Id. However if the Trading Member satisfies the CD Segment of the Exchange that the action(s) and/or trade(s) took place due to fraud or misrepresentation by any other person other than his authorised person(s) and that the action(s) and/or trades did not originate from any of his approved workstations, the CD Segment of the Exchange may issue such directions as it considers just and reasonable. The directions may include referring the matter to arbitration and/or annulment of trade(s) so effected.

3.1.20 When a Trading Member enters an order on behalf of a Constituent, then such a Trading Member shall at the time of entering orders on behalf of such Constituent, enter the Unique Client Code in respect of such Constituent in such format and with effect from such date as may be notified by the Exchange. Every Trading Member shall be responsible to furnish particulars of Unique Client Codes of each of his Constituents to the Exchange in such form, manner, at such intervals and within such time as may be specified by the Exchange from time to time.

## 3.2 POSITION LIMIT

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<sup>68</sup> Inserted with effect from February 24, 2010

<sup>69</sup> Inserted with effect from February 24, 2010

The Relevant Authority may at any time in its absolute discretion prescribe maximum long and/or short open positions for all or any of the Currency Derivatives Trading Members and their clients including quantity and/or value for any or all <sup>70</sup>[Derivatives Contracts].

### **3.3 ACTION BY THE RELEVANT AUTHORITY**

Upon a Currency Derivatives trading member/any constituent of a Currency Derivatives Trading Member failing to comply with any provisions of the Byelaws, Rules and Regulations of the Exchange/ Clearing Corporation, requirements of the Exchange/ Clearing Corporation including the requirements pertaining to the position limits as imposed by the Relevant Authority from time to time, the Relevant authority may at its discretion, either on its own or on the advice from the Clearing Corporation without notice to the trading member close out open positions to the extent possible or take any such other measure or action, including withdrawal of trading facility, as may be deemed fit from time to time.

### **3.4 TRADE OPERATIONS\**

- 3.4.1 Trading Members shall ensure that appropriate confirmed order instructions are obtained from the constituents before placement of an order on the ATS system and shall keep relevant records or documents of the same and of the completion or otherwise of these orders thereof.
- 3.4.2 The Trading Member shall make available to his constituent the ATS system generated order number and copies of the order/trade confirmation slip/modification slip wherever applicable.
- 3.4.3 The Trading Member shall disclose to the CD Segment of the Exchange at the time of order entry that the order is on his own account or on behalf of constituents and also specify orders for buy or sell as open or close orders.
- 3.4.4 The procedures and conditions for amendment or cancellation of orders would be subject to such conditions and as specified by the CD Segment of the Exchange from time to time.
- 3.4.5 Trading Members shall be solely responsible for the accuracy of orders entered into the trading system including orders entered on behalf of his constituents.
- 3.4.6 Trades generated on the ATS system are irrevocable and 'locked in'. The CD Segment of the Exchange may specify from time to time the markets in which trade cancellation can be effected.
- 3.4.7 Where a trade cancellation is permitted and Trading Member wishes to cancel a trade, it

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<sup>70</sup> Substituted with effect from May 2, 2011

may be done only with the approval of the CD Segment of the Exchange and in the following manner:

- (a) The Trading Member wishing to cancel the trade shall initiate a cancellation request to the CD Segment of the Exchange. The counter Trading Member to the trade, too, shall have to put in his cancellation request separately.
- (b) Where a Trading Member initiates such request the onus shall be on the Trading Member to ensure that he receives a written request from the constituent.
- (c) Where a trade cancellation request comes to CD Segment of the Exchange from only one party to trade and is pending with the CD Segment of the Exchange as a result of it being not confirmed by the counter party to such trade till such time as may be notified by the CD Segment of the Exchange, such request may be cancelled at the discretion of the CD Segment of the Exchange.
- (d) The CD Segment of the Exchange shall not consider any request for a Trade Cancellation after such period after the market close on a trading day as may be notified from time to time.
- (e) The CD Segment of the Exchange shall not give the reasons for rejection or approval of any such trade cancellation request.
- (f) The CD Segment of the Exchange may cancel a trade suo-moto without any request by either of the parties to the trade at any time without giving any reason thereof which cancellation shall be final and binding up on the parties to the trade. In the event of such cancellation, Trading Member shall be entitled to cancel relative contract(s) with his constituents.

3.4.8 The Trading Member shall make available to his constituent the ATS system generated trade number and copies of the trade cancellation slip wherever applicable.

## **3.5 ORDER MANAGEMENT**

### **3.5.1 Order Type**

The CD Segment of the Exchange shall stipulate from time to time, the kinds of orders that a Trading Member can place in the ATS system which may include Normal order, Special Term order, etc. as also the order attributes that he could place thereon.

### **3.5.2 Order Attributes**

- (a) The CD Segment of the Exchange shall from time to time allow various order

attributes subject to restrictions as specified in the trading parameters.

- (b) The CD Segment of the Exchange shall specify the order types and order attributes permitted for different market types.

### **3.5.3 Modification and Cancellation of Orders**

- (a) A Trading Member shall be permitted to modify or cancel his orders, provided a trade has not already taken place in respect of that order.
- (b) The order can be modified by effecting changes in the order input parameters in the manner and on such conditions as specified by the CD Segment of the Exchange.
- (c) The modified order shall lose or retain its time priority as per the trading parameter set by the CD Segment of the Exchange.

### **3.5.4 Order Validation**

Orders entered into the Trading System by Trading Members shall be subject to various validation requirements as specified by the CD Segment of the Exchange from time to time including trading parameters, turnover limits, exposure limits and/or other restrictions placed on traded <sup>71</sup>[Derivatives Contracts]. Orders that do not meet the validation checks shall not be accepted by the Trading System.

### **3.5.5 Matching Rules**

- (a) The CD Segment of the Exchange shall specify from time to time the kinds of order books that shall be maintained on the ATS system, the order matching algorithms and the matching rules and parameters that shall be followed therein.
- (b) The CD Segment of the Exchange may modify or change the matching algorithms relevant to any market or order books any time where it is necessary to do so.
- (c) Where the CD Segment of the Exchange feels that it is in the interests of the market to do so, it may at any time make unavailable any particular order books or forms of matching, in the case of a particular <sup>72</sup>[Derivatives Contract] or Trading Member or to the market as a whole.
- (d) Without prejudice to the generality of the above, the order matching rules would include the following:
  - (i) Orders in the Normal market shall be matched on price-

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<sup>71</sup> Substituted with effect from May 2, 2011

<sup>72</sup> Substituted with effect from May 2, 2011

time priority basis.

- (ii) The best buy order shall match with the best sell order. For trading on price, the best buy order would be the one with the highest price and the best sell order would be the one with the lowest price.

### **3.6 CONTRACT NOTE**

- 3.6.1 Every Trading Member shall issue a contract note to his constituents for trades executed in such format as may be prescribed by the Exchange from time to time with all relevant details as required therein to be filled in, and issued in such manner and within such time as specified by the CD Segment of the Exchange.
- 3.6.2 A contract note shall be signed by a Trading Member or his Authorised signatory or constituted Attorney.
- 3.6.3 Contract note shall be time stamped with the time of receipt of order and the time of execution of order.
- 3.6.4. The contract notes shall be numbered with unique running serial number commencing from one which shall be reset only at the beginning of every financial year (viz. April to March). In case separate series are maintained in respect of different dealing offices of the Trading Member, then the dealing office name or code shall be pre- fixed to the serial number.
- 3.6.5 Notwithstanding anything contained in Regulation 3.6, a contract note may also be issued by a Trading Member in electronic form, in such format as may be prescribed by the Exchange from time to time, duly authenticated by means of a digital signature as specified in the Information Technology Act, 2000 and the Rules made thereunder.

### **3.7 BROKERAGE**

- 3.7.1 All the orders entered on the Trading System shall be at prices exclusive of brokerage.
- 3.7.2 Trading Members shall charge brokerage at rates not exceeding such scale as the CD Segment of the Exchange may specify from time to time.
- 3.7.3. The Trading Members shall charge brokerage for option contracts on the premium amount at which the option contract was bought or sold and not on the strike price of the option contract.
- 3.7.4 A Trading Member shall charge brokerage separately to their constituents and this shall

be indicated separately from the price, in the contract note.

### **3.8 DEPOSIT REQUIREMENT**

- 3.8.1. Trading Member shall make available such deposits as may be specified from time to time with the CD Segment of the Exchange within such time as may be notified.
- 3.8.2 The CD Segment of the Exchange shall specify from time to time such categories of securities that would be eligible for such a deposit as also the method of valuation and amount of securities that would be required to be so deposited.
- 3.8.3 The trading member shall be required to deposit, such deposits either in the form of cash, deposit receipts, guarantee of banks approved by the Relevant Authority or securities approved by it or such other mode as may be approved or subject to such terms and conditions as the Relevant Authority may impose from time to time.
- 3.8.4 The procedure for refund of deposit will be such as notified by the CD Segment of the Exchange from time to time.

### **3.9 MARGIN REQUIREMENTS**

- 3.9.1 Subject to the provisions as contained in the Bye-laws of the Exchange and the Bye Laws of the Clearing Corporation and such other regulations as may be in force, every Trading Member/Participant shall in respect of trades in which he is a party, deposit a margin with CD Segment of the Exchange/Clearing Corporation/Clearing Member, in the manner and to the extent specified by the CD Segment of the Exchange/Clearing Corporation. Whenever a margin is payable by a Participant, it shall pay such margins directly to the Clearing Member, unless otherwise directed by the CD Segment of the Exchange /Clearing Corporation.
- 3.9.2 The CD Segment of the Exchange / Clearing Corporation shall specify from time to time <sup>73</sup>[Derivatives Contracts], the settlement periods and trade types for which margin would be attracted.
- 3.9.3 The CD Segment of the Exchange /Clearing Corporation/Clearing Member shall levy initial margin and such other margins on <sup>74</sup>[Derivatives Contracts] of such amounts and in such manner as may be specified from time to time by the Relevant Authority.
- 3.9.4 The margin shall be deposited with the CD Segment of the Exchange/Clearing Corporation within such time as may be notified by the CD Segment of the

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<sup>73</sup> Substituted with effect from May 2, 2011

<sup>74</sup> Substituted with effect from May 2, 2011

Exchange / Clearing Corporation from time to time.

- 3.9.5 The CD Segment of the Exchange/Clearing Corporation shall specify from time to time such categories of securities that would be eligible for a margin deposit as also the method of valuation and amount of securities that would be required to be so deposited against the margin amount.
- 3.9.6 The procedure for refund/adjustment of margins shall be such as may be notified by the CD Segment of the Exchange/Clearing Corporation from time to time.
- 3.9.7 The CD Segment of the Exchange / Clearing Corporation shall from time to time, impose upon any particular Trading Member/Participant or category of Trading Member/Participant any special or other margin requirement.

### **3.10 MARGIN FROM THE CONSTITUENTS**

- (a) The Trading Members must demand from its constituents the Margin Deposit which the member has to provide under these Trading Regulations in respect of the business done by the Members for such constituents. The Trading Members shall buy and/or sell <sup>75</sup>[Derivatives Contracts] on behalf of the constituent only on the receipt of margin of minimum such percentage as the Relevant Authority may decide from time to time, on the price of the <sup>76</sup>[Derivatives Contracts] proposed to be purchased, unless the constituent already has an equivalent credit with the Trading Member. The Trading member may collect higher margins from constituents, as he deems fit.

The Trading Member shall obtain a written undertaking from the constituents that the latter shall when called upon to do so forthwith from time to time provide a Margin Deposit and/or furnish additional Margin as required under these Rules and Regulations in respect of the business done for the constituent by and/or as agreed upon by constituent with the Trading Member concerned.

The Trading Member shall demand from his constituents the amounts arising in respect of daily settlement in accordance with the Clearing Corporation Regulations for business done by the Members on behalf of such constituents or such higher amounts, as the Trading Member deems fit. The Trading Member may, if so desires, for administrative convenience, maintain the daily settlement margin balance upto a pre-agreed balance level to avoid collecting and paying daily settlement amount on a daily basis, which may be referred to as maintenance margin. The trading member may keep the unutilised margin deposits of its Constituents in bank deposits and pay interest accrued thereon to its Constituents or utilise the same as per the instructions of such Constituents.

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<sup>75</sup> Substituted with effect from May 2, 2011

<sup>76</sup> Substituted with effect from May 2, 2011

**(b) Constituent(s) in default**

In case of non-payment of daily settlement by the constituents within the next trading day, the Trading Member shall be at liberty to close out transactions by selling or buying the <sup>77</sup>[Derivatives Contracts], as the case may be, unless the constituent already has an equivalent credit with the Trading Member. The loss incurred in this regard, if any, shall be met from the margin money of the constituent.

In case of open purchase position undertaken on behalf of constituents, the Trading Members shall be at liberty to close out transactions by selling <sup>78</sup>[Derivatives Contracts], in case the constituent fails to meet the obligations in respect of the open position within next trading day for the execution of the full contract or within next trading day of the contract note having been delivered, unless the constituent already has an equivalent credit with the Trading Member. The loss incurred in this regard, if any, shall be met from the margin money of the constituent.

In case of open sale position undertaken on behalf of the constituents, the Trading Member shall be at liberty to close out transactions by effecting purchases of <sup>79</sup>[Derivatives Contracts] if the constituent fails to meet the obligation in respect of the open position within next trading day of the transaction having been executed on the CD Segment of the Exchange for the concerned settlement period. Loss on the transaction, if any, shall be deductible from the margin money of the constituent.

**3.11** The Relevant Authority may from time to time prescribe -

- (a) the mode, method or manner in which the premium shall be collected by the trading member from the constituent;
- (b) the mode, method or manner in which the margins shall be collected by the trading member from the constituent;
- (c) the manner or form in which and time within which the constituent shall give exercise notice to the trading member;
- (d) the manner or form in which and time within which the trading member shall assign exercise notice to its constituents account; and
- (e) the mode, method of exercise, for different option contracts.

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<sup>77</sup> Substituted with effect from May 2, 2011

<sup>78</sup> Substituted with effect from May 2, 2011

<sup>79</sup> Substituted with effect from May 2, 2011



### **3.12 COLLECTION OF TAXES**

Every Trading Member shall remit to the Exchange any Tax in respect of any transactions entered into by him where a tax is leviable under any law, on the Exchange either on his behalf or on behalf of his Constituents in accordance with the procedures prescribed by the Relevant Authority from time to time for the calculation and collection of such tax. Any Trading Member who fails to make the payment in accordance with the procedures prescribed by the Relevant Authority from time to time would be liable for such consequences of non-payment including but not limited to withdrawal of trading facility, appropriation from the monies of the Trading Member, withholding of pay-outs, etc. as may be prescribed from time to time.

### **3.13 The trading members shall –**

- (i) collect copies of Permanent Account Number (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; and
- (iii) upload the details of PAN so collected to the Exchanges as part of unique client code.

## **4. CONDUCT OF BUSINESS BY TRADING MEMBERS**

### **4.1 OFFICE RELATED PROCEDURE**

- 4.1.1 No office of a Trading Member shall be used for trading without prior approval of the CD Segment of the Exchange.
- 4.1.3 Every Trading Member shall ensure that all persons acting in his behalf on the Trading System shall subscribe at all times to high standards of professional expertise and integrity.
- 4.1.4 Each Trading Member shall at all times maintain such infrastructure, staff, communication facilities and records so as to be able to service his constituents satisfactorily and as per the requirements enumerated in the SEBI Act, 1992 and Regulations framed thereunder, Securities Contracts (Regulation) Act, 1956 and/ or Rules thereunder, Exchange Bye-laws, Rules and Regulations, or any other relevant law for the time being in force.
- 4.1.5 Where the CD Segment of the Exchange feels it necessary, in the public interest to do so, it may at its own instance or on receiving a complaint from another Trading Member or constituent, seek explanation from the Trading Member regarding the level of service or professional conduct of the Trading Member or any of his staff where such service or conduct has been found unsatisfactory or contrary to principles enumerated in the Exchange Bye-laws, Rules and Regulations, or notifications, directions or circulars issued thereunder.

### **4.2 SUPERVISION**

#### **4.2.1 Procedures to be followed**

- (a) Each Trading Member shall establish, maintain, and enforce procedures to supervise its business and to supervise the activities of its employees that are reasonably designed to achieve compliance with the MSEI Byelaws, Rules and Regulations and any notifications, directions, etc. issued thereunder as well as the relevant statutory Acts. Such procedures to supervise its business and to supervise the activities of its employees shall be in compliance with the manual of supervisory procedure, if any, provided by the CD Segment of the Exchange.
- (b) The Trading Member shall maintain an internal record of the names of all persons who are designated as supervisory personnel and the dates for which such designation is or was effective. Such record shall be preserved by the Trading Member for a period of not less than three years.

- (c) Every Trading Member shall specifically authorise in writing, person or persons who may be authorised to transact on behalf of the Trading Member and to do such acts which Trading Member may wish to delegate to such person, and make available a copy of such power of attorney to the CD Segment of the Exchange before such person transacts any business on the CD Segment of the Exchange.
- (d) A Trading Member shall maintain such records and make available for inspection by any person authorised in this behalf by the CD Segment of the Exchange, the information related to such Trading Member's financial condition as specified by the CD Segment of the Exchange for this purpose.
- (e) The Trading Member shall pay such fees, charges and other sum as the CD Segment of the Exchange may notify from time to time, in such time and manner as required by the CD Segment of the Exchange.
- <sup>80</sup>(f) The Trading Member must inform the CD Segment of the Exchange of any change in the status and constitution, operation and activities of the Trading Member, which may however be effected subject to receipt of such approvals and/or following such procedure as may be specified by the CD Segment, where applicable.

#### <sup>81</sup>4.2.2 **Internal Inspections**

Each Trading Member shall conduct a review, at least annually, of the business in which it engages, which shall be reasonably designed to assist in detecting and preventing violations of and achieving compliance with Securities and Exchange Board of India Act, 1992 and Regulations framed thereunder, the Securities Contracts (Regulation) Act, 1956 and Rules framed thereunder and Exchange Bye-laws, Rules, Regulations and Circulars.]

#### <sup>82</sup>4.2.2A **Internal Audit**

Each Trading Member shall conduct complete internal audit at such periodicity, by such professionals and having such a scope as may be prescribed by the Exchange/SEBI from time to time.]

#### 4.2.3 **Written Approval**

Each Trading Member shall establish procedures for the review and endorsement by an appropriate senior officer in writing, on an internal record, of all transactions and all correspondence of its employees pertaining to the solicitation or execution of any transaction.

#### 4.2.4 **Qualifications Investigated**

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<sup>80</sup> Substituted with effect from January 9, 2012

<sup>81</sup> Substituted with effect from February 24, 2010

<sup>82</sup> Inserted with effect from May 2, 2011

Each Trading Member shall have the responsibility and duty to ascertain the good character, business repute, qualifications, and experience of any person prior to making such certification in the application for registration of such person, with the CD Segment of the Exchange as Approved user.

### **4.3 RELATION WITH CONSTITUENTS**

<sup>83</sup>4.3.1 [\*\*\*\*]

<sup>84</sup>[4.3.2 When establishing a relationship with a new constituent, Trading Members must take reasonable steps to assess the background, genuineness, beneficial identity, financial soundness of such person, and his investment objectives by obtaining from the new Constituent such Constituent account opening documents as may be prescribed by the CD Segment of the Exchange from time to time. The Trading Member shall also obtain from all constituents other than individual constituent an approved copy of the board resolution permitting trading in Currency Derivatives/Interest Rate Derivatives.]

<sup>85</sup>[4.3.2A Without prejudice to the generality of regulation 4.3.2, the Trading Member shall perform such other specific verification of the Constituent as may be required by SEBI and/or the Exchange or in terms of any law for the time being in force.

<sup>86</sup>[4.3.2B The Trading Member shall before registering a Constituent furnish him with account opening forms which shall be in such format, shall be accompanied by such documents, including segregation into mandatory and non-mandatory documents and shall further meet such other requirements, as may be specified by SEBI and/or the Exchange.]

<sup>87</sup>[4.3.2BA Notwithstanding anything contained in Regulations 4.3.2 to 4.3.2B, a member may use the proposed Constituent's Know Your Client (KYC) information which is available with a KYC Registration Agency registered by SEBI under the Securities and Exchange Board of India {KYC (Know Your Client) Registration Agency} Regulations, 2011, subject to such conditions and restrictions as may be specified by SEBI or the Exchange from time to time.]

4.3.2C Trading Members shall provide information relating to Constituents dealings and balances of funds including margins in such manner and at such periodicity as maybe specified by SEBI and/or the Exchange.

4.3.2D Trading Members who maintain their own websites, shall display the set of standard documents required in connection with Constituent registration and shall allow secured

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<sup>83</sup> Omitted with effect from January 9, 2012

<sup>84</sup> Substituted with effect from January 9, 2012

<sup>85</sup> Inserted with effect from May 2, 2011

<sup>86</sup> Substituted with effect from January 9, 2012

<sup>87</sup> Inserted with effect from March 30, 2012

online access to their Constituents to such trading and settlement related information pertaining to them and in such manner as may be specified by SEBI and/or the Exchange.

4.3.2E The Trading Member shall evolve policies and procedures for such matters pertaining to dealings with the Constituent and treatment of the Constituent, as may be specified by SEBI and/or the Exchange and shall disclose the same to the Constituent or display the same in such manner as may be specified.]

4.3.3 Trading Member shall make the constituent aware of trading Segment to which Trading Member is admitted, particulars of SEBI registration number, employee primarily responsible for the constituents affairs, the precise nature of the Trading Member's liability for business to be conducted, the risk associated with business in <sup>88</sup>[Derivatives] trading including any limitations on that liability and the capacity in which the Trading Member acts and the constituent's liability thereon by issuing to the constituent a copy of the model Risk Disclosure Document which shall be in such format as may be prescribed by the CD Segment of the Exchange from time to time. The Trading Member shall furnish a copy of the Risk Disclosure Document to all his clients.

4.3.4 The Trading Member shall provide extracts of relevant provisions governing the rights and obligations of constituents as constituents of Trading Members (including Participants as specified in the Bye-laws, Rules and Regulations), relevant manuals, notifications, circulars any additions or amendments thereto etc. of the CD Segment of the Exchange, or of any regulatory authority, to the extent it governs the relationship between Trading Members and constituents, to the constituents at no extra cost.

4.3.5 The Trading Member shall also bring to the notice of his constituents, including Participants any indictments, penalties, etc. imposed on him by the CD Segment of the Exchange or any other regulatory authority.

<sup>89</sup>[4.3.5A. A Trading Member may obtain Power of Attorney from his Client only in strict compliance with the directions, guidelines or Circulars of SEBI and/or the Exchange issued from time to time.]

4.3.6 Recommendations to the Trading Member:

- (a) A Trading Member shall make adequate disclosures of relevant material information in his dealings with his constituents.
- (b) No Trading Member or person associated with the Trading Member shall guarantee a constituent against a loss in any transactions effected by the Trading Member for such constituent.

<sup>90</sup>[4.3A **DISCLOSURE OF INVESTOR COMPLAINTS, ARBITRATION DETAILS**

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<sup>88</sup>Substituted with effect from May 2, 2011

<sup>89</sup> Inserted with effect from June 30, 2011

<sup>90</sup> Inserted with effect from March 11, 2010

## AND DISCIPLINARY ACTION

4.3A.1 Unless otherwise directed by SEBI or other competent authority, court or tribunal, the Exchange may disclose the details of the complaints lodged by Constituents/investors against Trading Members in its website ([www.msei.in](http://www.msei.in)), including the details pertaining to arbitration and penal action taken by the Exchange against the Trading Members, in such format and update at such periodicity as may be specified by SEBI.]

## 4.4 GUIDELINES GOVERNING RELATIONSHIP BETWEEN TRADING MEMBER AND CONSTITUENT

4.4.1 The Trading Member shall not recommend to the constituent a sale or purchase of <sup>91</sup>[Derivatives Contracts] traded on the Trading System, unless he has reasonable grounds to believe that such recommendation is suitable for the constituent on the basis of facts, if any, disclosed by the constituent, whether in writing or orally, regarding the objectives, constituent's holdings of <sup>92</sup>[Derivatives Contracts], financial soundness and investment.

4.4.2 The Trading Member shall make adequate disclosures of relevant material information in his dealing with his constituent including the current best price of trade and trade or order quantities on the Trading System, as also any allocation policy inter se constituents, any relevant announcement from the CD Segment of the Exchange relating to margin, trading restrictions as to price, quantity or where the Trading Member is the counter party to a trade executed on the ATS system with the constituent.

4.4.3 Where the Trading Member manages a discretionary account for or on behalf of the constituent, he should abide by the Securities and Exchange Board of India (Portfolio Managers) Rules and Regulations, 1993.

4.4.4 The Trading Member shall not furnish any false or misleading information or advice with a view to inducing the constituent to do business in particular <sup>93</sup>[Derivatives Contracts] and which shall enable the Trading Member to earn a gain thereby.

4.4.5 The Trading Member shall explain the ATS Trading System and order matching process to the constituent before accepting any orders from him.

4.4.6 Trading Members shall inform their Constituents whether they do client based trading or Pro-account trading. Trading Members shall disclose the aforesaid information-

- (i) to their existing Constituents within such period as specified by the Exchange;
- (ii) to their new Constituents upfront at the time of entering into Member-Client

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<sup>91</sup> Substituted with effect from May 2, 2011

<sup>92</sup> Substituted with effect from May 2, 2011

<sup>93</sup> Substituted with effect from May 2, 2011

Agreement;

(iii) to their Constituents before carrying out any Pro-account trading, in case they presently do not do Pro-account trading, but choose to do so at a later date.

- 4.4.7 Where the Constituent requires an order to be placed or any of his orders to be modified after the order has entered the system but has not been traded, the Trading Member may, if it so desires, obtain order placement / modification details in writing from the Constituent. The Trading Member shall accordingly provide the Constituent with the relevant order confirmation / modification slip or copy thereof, forthwith, if so required by the Constituent.
- 4.4.8 Where the Constituent requires any of his orders to be cancelled after the order has been entered in the system but has not been executed, the Trading Member may, if it so desires, obtain the order cancellation details in writing from the Constituent. The Trading Member shall accordingly provide the Constituent with the relevant order cancellation slip, forthwith, if so required by the Constituent.
- 4.4.9 The Trading Member may, if it so desires, obtain in writing, the delivery and payment requirement in any instructions of an order that it receives from the Constituents. Where a Trading Member receives a request for order modification or order cancellation from the Constituents, it shall duly bring it to their notice that if the order results in a trade in the meantime, the requests for modification or cancellation cannot be executed.
- 4.4.10 The Trading Member shall not accumulate or withhold constituent's order/unexecuted balances for <sup>94</sup>[Derivatives Contracts]. The Trading Member shall place forthwith all orders.
- 4.4.11 The Trading Member shall act promptly in accordance with the instructions provided by the constituent unless he has discretion as to the timing relating to entering and/or execution of the order, in which case he must exercise his judgment as to the best moment for entering that order in the system.
- 4.4.12 The Trading Member shall provide Constituent with a copy of the trade confirmation slip as generated on the trading system, forthwith on execution of the trade, if so desired by the Constituent; and with a contract note for the trade executed.
- <sup>95</sup>[4.4.12A The Trading Member may issue electronic contract notes to the Constituent, if so specifically authorized by him, subject to such conditions as may be specified by SEBI and/or the Exchange.]
- 4.4.13 In addition to the guidelines issued by SEBI relating to the regulation of transactions between constituents and brokers, member shall at all times keep the money of the constituent in a separate bank account. The bank will not be able to

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<sup>94</sup> Substituted with effect from May 2, 2011

<sup>95</sup> Inserted with effect from May 2, 2011

access the constituents account to meet the brokers defaults in anyway unless specified by the constituent.

4.4.14 Where the member is required to pay margin money on transaction executed on behalf of the constituent, he shall collect the same from the constituent in such form and manner as may be specified by CD Segment of the Exchange.

4.4.15 Where the constituent requires an executed trade to be cancelled, the Trading Member shall obtain a written request for trade cancellation from the constituent. In all instances of trade cancellation requests, the member shall explain to the constituent that the right to approve or reject such trade cancellation requests rests with the CD Segment of the Exchange.

4.4.16 The Trading Member shall make pay out of funds to the Constituent within one (1) working day of receipt of the payout from the Exchange.

<sup>96</sup>[4.4.16A A Trading Member may maintain a running account, if so specifically authorised by the Constituent, subject to such conditions as may be specified by SEBI and/or the Exchange.]

4.4.17 (a) Trading Member shall not make payment in cash to the Constituents and shall not receive payment in cash from the Constituents, towards the payment of Mark to market settlement for Derivatives contracts.

(b) The trading member shall make or receive all payments to/from the Constituents by account payee crossed cheques/ Demand Drafts or by way of direct credit into the respective bank account through Electronic Fund Transfer Facility or any other mode allowed by the Reserve Bank of India.

(c) In respect of their transactions, the trading member shall accept cheques/ Demand Drafts drawn only by the Constituents and issue cheques/ Demand Drafts in favour of the Constituents only;

Provided that in exceptional circumstances the trading members may receive the amount in cash, to the extent permissible under the provisions of the Income Tax Act or Rules or circulars or directives framed or issued thereunder, as may be in force from time to time.

## **4.5 CODE OF CONDUCT FOR TRADING MEMBERS**

### **4.5.1 Adherence to SEBI Code of Conduct**

The Trading Member shall at all times subscribe to the Code of Conduct as specified by the Securities and Exchange Board of India (Stock Brokers and SubBrokers) Regulations,

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<sup>96</sup> Inserted with effect from May 2, 2011



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#### **4.5.2 General Principles**

- (a) A Trading Member shall make adequate disclosures of relevant material information in his dealings with his clients.
- (b) No Trading Member or person associated with the Trading Member shall guarantee a client against a loss in any transactions effected by the Trading Member for such client.
- (c) Professionalism: A Trading Member in the conduct of his business, shall observe high standards of commercial honour of just and equitable principles of trade.
- (d) Adherence to Trading Practices: Trading Members shall adhere to the Rules, Regulations and Bye - laws of the Exchange and shall comply with such operational parameters, rulings, notices, guidelines and instructions of the Relevant Authority as may be applicable from time to time.
- (e) Honesty and Fairness: In conducting his business activities, a Trading Member shall act honestly and fairly, in the best interests of his constituents.
- (f) Capabilities: A Trading Member shall have and employ effectively the resources and procedures which are needed for the proper performance of his business activities.

#### **4.5.3 Trading Principles**

- (a) Trading Members/Participants shall ensure that the fiduciary and other obligations imposed on them and their staff by the various statutory acts, rules and regulations is complied with.
- (b) Trading Members/Participants shall ensure –
  - (i) that any employee who commits the Trading Members or Participants to a transaction has the necessary authority to do so.
  - (ii) that employees are adequately trained in operating in the relevant market Segment in which they deal, are aware of their own, and their organization's responsibilities as well as the relevant statutory acts governing the Trading Member, the Rules, Regulations and Bye-laws of the CD Segment of the Exchange including any additions or amendments thereof.
- (c) Without prejudice to regulation 3.1.17 and 3.1.18, a Trading Member shall be responsible for all the actions including trades originating through or with the use of all following variables - Trading Member Id and User Id, at that

point of time. However if the Trading Member satisfies the CD Segment of the Exchange that the action(s) and/or trade(s) took place due to fraud or misrepresentation by any other person other than his authorised person(s) and that the action(s) and/or trades did not originate from any of his approved workstations, the CD Segment of the Exchange may issue such directions as it considers just and reasonable. The directions may include referring the matter to arbitration and /or annulment of trade(s) so effected.

- (d) When entering into transactions on behalf of constituents, the Trading Members shall ensure that they abide by the Code of Conduct and regulations as enumerated in the current chapter of these regulations.
- (e) No Trading Member or person associated with a Trading Member shall make improper use of constituent's securities /positions in <sup>97</sup>[Derivatives Contracts] or funds.
- (f) No Trading Member shall publish and circulate or cause to be published or circulated, any notice, circular, advertisement, newspaper article, investment service or communication of any kind which purports to report any transaction as a purchase or sale of any <sup>98</sup>[Derivatives Contracts] unless such Trading Member can establish if called for, that such transaction was a bonafide purchase or sale of such contract; or which purports to quote the purchase/sale price for any <sup>99</sup>[Derivatives Contracts] unless such Trading Member can establish if called for that such quotation represents a bonafide order of such <sup>100</sup>[Derivatives Contracts].
- (g) When entering into or arranging transactions, Trading Members must ensure that at all times great care is taken not to misrepresent in any way, the nature of transaction.
- (h) No Trading Member shall exercise any discretionary power in a constituent's account unless such constituent has given prior written authorisation to a stated individual or individuals and the account has been accepted by the Trading Member, as evidenced in writing by the Trading Member.
- (i) A Trading Member shall not act as a principal or enter into any agreement or arrangement with a constituent or constituent's agents, employees or any other person connected to the constituent, employee or agency, whereby special or unusual rates are given with an intent to give special or unusual advantage to such constituent for the purpose of securing his business.
- (j) The Trading Member shall not disclose the name and beneficial identity of a constituent to any person except to the CD Segment of the Exchange as and when

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<sup>97</sup> Substituted with effect from May 2, 2011

<sup>98</sup> Substituted with effect from May 2, 2011

<sup>99</sup> Substituted with effect from May 2, 2011

<sup>100</sup> Substituted with effect from May 2, 2011

required by it.

- (k) The facility of placing orders on 'Pro-account' through trading terminals shall be availed by the Trading Members only at one location of the Trading Members as specified/required by the Trading Members. Any trading terminal located at a place other than the above location shall have a facility to place order only for and on behalf of a Constituent by entering client code details as required/specified by the Exchange/SEBI. In case any Trading Member requires the facility of using 'Pro-account' through trading terminals from more than one location, such Trading Member shall request the Exchange stating the reason for using the 'Pro-account' at multiple locations and the Exchange may, on a case to case basis after due diligence, consider extending the facility of allowing use of 'Pro-account' from more than one location.

#### 4.5.4 General Guidelines

A Trading Member shall desist from the following trading practices while conducting business on the CD Segment of the Exchange.

**(a) Shielding or Assisting:**

No Trading Member shall shield or assist or omit to report any Trading Member whom he has known to have committed a breach or evasion of any Rules, Bye-Laws or Regulations of the CD Segment of the Exchange or of any resolution, order, notice or direction thereunder of the Governing Board or the Managing Director or of any committee or officer of the CD Segment of the Exchange authorised in that behalf.

**(b) Suspended <sup>101</sup>[Derivatives Contracts]**

Except with the permission of the CD Segment of the Exchange, business shall not be transacted by the Trading Member in <sup>102</sup>[Derivatives Contracts] which have been suspended from official quotation.

**(c) Misleading Transactions**

A Trading Member shall not -

- (i) make bids and/or offers for currency Derivatives contracts with an intention of creating a false or misleading appearance with respect to the market for, or the price of any currency Derivatives contracts or;
- (ii) make a transaction or give an order for the purchase or sale of currency Derivatives contracts, the execution of which would involve no change of beneficial ownership, unless the Trading

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<sup>101</sup> Substituted with effect from May 2, 2011

<sup>102</sup> Substituted with effect from May 2, 2011

Member had no knowledge that the transaction would not involve a change in the beneficial ownership of currency Derivatives contracts.

**(d) Use of information obtained in Fiduciary Capacity**

A Trading Member who in the capacity of paying agent, transfer agent, trustee, or in any other similar capacity, has received information as to the purchase/sale of <sup>103</sup>[Derivatives Contracts], shall under no circumstance make use of such information for the purpose of soliciting purchases/sales except at the request and on behalf of the issuer, if any.

**4.6 FRAUDULENT AND UNFAIR TRADING PRACTICES**

4.6.1 No Trading member shall buy, sell or deal in securities/<sup>104</sup>[Derivatives Contracts] in a fraudulent manner or indulge in any unfair trade practices including market manipulation.

4.6.2 Without prejudice to generality of the provisions contained in the above clause, no person shall indulge in market manipulation, namely:

1. (a) effect, take part in or enter into either directly or indirectly transactions in <sup>105</sup>[Derivatives Contracts], which are likely to have the effect of artificially raising or depressing or stabilising the price of <sup>106</sup>[Derivatives Contracts];
- (b) indulge in any act, which is calculated to create a false or misleading appearance of trading on the currency Derivatives market or, results in reflection of prices of <sup>107</sup>[Derivatives Contracts] based on transactions, which are not genuine trade transactions ; or
- (c) pay, offer or agree to pay or offer, directly or indirectly, to any person to purchase or sell any contract with the sole object to maintain, inflate, depress, or cause fluctuations in the market price of <sup>108</sup>[Derivatives Contracts].
2. No person shall make a statement, or disseminate information which is misleading in a material particular which is likely to induce the sale of <sup>109</sup>[Derivatives Contracts] by other persons or is likely to have the effect of maintaining or stabilising the market price of <sup>110</sup>[Derivatives Contracts] if, when he makes or disseminates the information –

<sup>103</sup> Substituted with effect from May 2, 2011

<sup>104</sup> Substituted with effect from May 2, 2011

<sup>105</sup> Substituted with effect from May 2, 2011

<sup>106</sup> Substituted with effect from May 2, 2011

<sup>107</sup> Substituted with effect from May 2, 2011

<sup>108</sup> Substituted with effect from May 2, 2011

<sup>109</sup> Substituted with effect from May 2, 2011

<sup>110</sup> Substituted with effect from May 2, 2011

- (a) he does not care whether the statement or information is true or false;
- (b) he knows or ought to reasonably know that the statement or information is false or misleading in material.

3. No trading member shall-

- (a) engage in any act, practice in course of his business, which would operate as a fraud or deceit upon any person in connection with the purchase or sale of any <sup>111</sup>[Derivatives Contracts]; or
- (b) buy, sell or deal in <sup>112</sup>[Derivatives Contracts] on his own behalf or on behalf of a person associated with him pending the execution of the order of his constituent or of his company or director for the same <sup>113</sup>[Derivatives Contracts] in; or
- (c) delay the transfer of <sup>114</sup>[Derivatives Contracts] in the name of the transferee which results in the price of the <sup>115</sup>[Derivatives Contracts] increasing; or
- (d) indulge in falsification of his books, accounts and records for the purpose of market manipulation; or
- (e) when acting as an agent execute a transaction with a constituent at a price other than the price at which it was executed on the CD Segment of the Exchange or other than the price it was off-set against the transaction of another constituent; or
- (f) either take opposite position to an order of a constituent or shall execute opposite orders which he is holding in respect of two constituents except in the manner laid down by the CD Segment of the Exchange.

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<sup>111</sup> Substituted with effect from May 2, 2011

<sup>112</sup> Substituted with effect from May 2, 2011

<sup>113</sup> Substituted with effect from May 2, 2011

<sup>114</sup> Substituted with effect from May 2, 2011

<sup>115</sup> Substituted with effect from May 2, 2011

## **5. CLEARING & SETTLEMENT OF <sup>116</sup>[DERIVATIVES CONTRACTS]**

### **5.1. Clearing and Settlement Regulations form Part of Contracts**

These Regulations from time to time in force relating to any procedure for clearance and settlement of <sup>117</sup>[Derivatives Contracts] and the resolutions, notices, directions and decisions of the relevant authority for the time being in force shall be a part of the terms and conditions of every <sup>118</sup>[Derivatives Contract].

### **5.2. Reporting of <sup>119</sup>[Derivatives Contracts]**

<sup>120</sup>[Derivatives Contracts] executed by the CD Clearing Members shall be reported to the CD Segment of the Clearing Corporation / Clearing House in such manner and form and within such time as may be specified from time to time by the relevant authority.

### **5.3. Clearing and Settlement of <sup>121</sup>[Derivatives Contracts]**

Clearing and Settlement of transactions on <sup>122</sup>[Derivatives Contracts] shall be cleared and settled through the Clearing Corporation / Clearing House by such process or processes as the relevant authority may from time to time prescribe.

### **5.4. Change In Settlement Procedure**

It shall be competent for the relevant authority to order at any time that any or all deals entered into or to be entered into shall be settled by any other suitable processes as may be decided from time to time and every transaction shall be subject to any such change in settlement procedure or process.

### **5.5. Notices and Directions**

All CD Clearing Members shall comply with the instructions, resolutions, orders, notices, directions and decisions of the relevant authority in all matters connected with the operations of the Clearing Corporation / Clearing House.

### **5.6. False or Misleading Statements**

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<sup>116</sup> Substituted with effect from May 2, 2011

<sup>117</sup> Substituted with effect from May 2, 2011

<sup>118</sup> Substituted with effect from May 2, 2011

<sup>119</sup> Substituted with effect from May 2, 2011

<sup>120</sup> Substituted with effect from May 2, 2011

<sup>121</sup> Substituted with effect from May 2, 2011

<sup>122</sup> Substituted with effect from May 2, 2011

The relevant authority may fine, suspend or expel a CD Clearing Member who makes any false or misleading statement in the Clearing Forms required to be submitted in conformity with these Regulations or any resolutions, orders, notices, directions and decisions of the relevant authority thereunder.

**5.7. Charges for Clearing**

The relevant authority shall from time to time prescribe the scale of clearing charges for the clearing and settlement of transactions through the Clearing Corporation.

**5.8. Clearing Corporation / Clearing House Bills**

The CD Segment of the Clearing Corporation/Clearing House shall periodically render bills for the charges, clearing and such other fees, fines and other dues as may be payable by CD Clearing Members to the Clearing Corporation/Clearing House on account of transactions cleared and settle through the CD Segment of the Clearing Corporation/Clearing House and debit the amount payable by such members to their clearing accounts.

**5.9. Liability of the Clearing Corporation / Clearing House**

No liability shall attach either to the Clearing Corporation/Clearing House or to the relevant authority or any employees/agents of the Clearing Corporation/Clearing House by reason of anything done or omitted to be done by the Clearing Corporation/Clearing House in the course of its operations.

**5.10. Clearing Days And Scheduled Times**

The relevant authority shall from time to time fix various clearing days including the pay-in and pay-out days and the scheduled time to be observed in connection with the clearing and settlement operations of any or all <sup>123</sup>[Derivatives Contracts]. The relevant authority may specify different schedules for any or all CD Clearing Members from time to time.

**5.11. Alteration of the Clearing Days and Scheduled Times**

The relevant authority may at any time curtail, extend, alter or postpone from time to time the entire clearing or any or all of the various clearing days and scheduled times in respect of any or all of the <sup>124</sup>[Derivatives Contracts].

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<sup>123</sup> Substituted with effect from May 2, 2011

<sup>124</sup> Substituted with effect from May 2, 2011

## 5.12. **Open Positions**

All contracts for the purchase or sale of any <sup>125</sup>[Derivatives Contracts] shall remain open and in force and shall continue to be binding upon the CD Clearing Members and its constituents until liquidated by offsetting contract or such other method as may be specified by the relevant authority from time to time; provided however all open positions shall cease to exist after expiration day.

## 5.13. **Offset not automatic**

In case of deals in <sup>126</sup>[Derivatives Contracts] having the same contract month and/or such other specifications as may be issued by the relevant authority from time to time and pertaining to proprietary account, the buy transactions and sell transactions shall offset each other automatically to the extent possible. In the case of deals in <sup>127</sup>[Derivatives Contracts] having the same contract month and/or such other specifications as may be issued by the relevant authority from time to time, and pertaining to client account, the buy transactions and sell transactions shall not offset each other unless the deals are specifically marked for offsetting at the time of entering into the trade for the same client.

## 5.14. **Adjustment of positions in <sup>128</sup>[Derivatives Contracts] on account of corporate actions in underlying security**

5.14.1 The Relevant Authority may from time to time specify the provisions, relating to adjustments, including non-adjustment, in open positions, discontinuing any or all futures contracts and/or settlement methods and procedures for the relevant <sup>129</sup>[Derivatives contracts], arising out of or incidental to corporate actions in the underlying security.

### 5.14.2 **Adjustment**

Adjustment shall mean and include modification in open positions and/or contract specifications in the relevant <sup>130</sup>[Derivatives Contracts], arising out of or incidental to corporate actions in the underlying security, in accordance with the Rules, Bye-laws and Regulations in force from time to time.

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<sup>125</sup> Substituted with effect from May 2, 2011

<sup>126</sup> Substituted with effect from May 2, 2011

<sup>127</sup> Substituted with effect from May 2, 2011

<sup>128</sup> Substituted with effect from May 2, 2011

<sup>129</sup> Substituted with effect from May 2, 2011

<sup>130</sup> Substituted with effect from May 2, 2011



**5.15. Payment by Clearing Member**

The CD segment of the Clearing Corporation/Clearing House shall treat all monies paid by CD Clearing Members as monies paid to it by a principal and such monies in the hands of Clearing Corporation/Clearing House shall not be impressed with a trust or other equitable interest. Any payment by Clearing Corporation/Clearing House to any Clearing Member shall constitute good and sufficient discharge.

## **6. MARGINS AND CLEARING / EXPOSURE LIMITS**

### **6.1 Margin**

The CD Segment of the Clearing Corporation / Clearing House shall from time to time specify margin requirements for the CD Clearing Members including initial margin on open positions through risk based algorithms. The CD Clearing Members shall furnish and maintain such margins in such form and within such time as specified by the CD Segment of the Clearing Corporation / Clearing House. Every CD Clearing Member has a continuing obligation to maintain margins at the level and for the period stipulated by the CD Segment of the Clearing Corporation / Clearing House from time to time.

The CD Segment of the Clearing Corporation / Clearing House shall segregate in such manner as it may deem fit the margins deposited by the Clearing Member on its own account and on behalf of clients.

### **6.2 Mode of payment of Margin**

CD Clearing Member shall be required to furnish margins either in the form of cash, deposit receipts, guarantee of a bank(s) and securities approved by the relevant authority or such other mode and subject to such terms and conditions as the relevant authority may specify from time to time.

### **6.3 Withholding Margin**

The CD Segment of the Clearing Corporation / Clearing House shall at its discretion or on the instructions of the specified exchange withhold/release of any margin furnished by that CD Clearing Member to the Clearing Corporation for any period required by the Specified Exchange / Clearing Corporation / Clearing House. If such a CD Clearing Member has open positions he must continue to pay any further margin or other obligations without taking into account any margin so withheld by the Clearing Corporation / Clearing House.

### **6.4 Additional margin**

If in the opinion of the CD segment of the Clearing Corporation / Clearing House sudden fluctuations of any Market operated by the Specified Exchange are apparent, the Clearing Corporation / Clearing House may call for additional margin. Additional margin shall be payable in the manner and within such time as may be specified from time to time.

### **6.5 Margin from the Constituents**

6.5.1 The CD Clearing Members shall demand from its constituents the margin monies which the

clearing member has to provide under these Regulations in respect of dealings done by the CD Clearing Members for such constituents.

6.5.2 The CD Clearing Members shall clear and settle deals in <sup>131</sup>[Derivatives Contracts] on behalf of the constituents only on the receipt of such minimum margin as the relevant authority may decide from time to time, unless the constituents already has an equivalent credit with the clearing member. The clearing member may collect higher margins from constituents, as he deems fit.

6.5.3 The Clearing member as and when required by the Clearing House shall inform the Clearing Corporation / Clearing House, specifically the amount deposited as margin on behalf of his constituents.

6.5.4 The Clearing Member shall not allow the utilisation of margin monies paid by one client to the margin money dues of his own account or of other clients” .

## **6.6 Payment of Margins**

The Clearing Corporation / Clearing House shall treat all the margin and other monies paid by the clearing member as having been paid by and on his own behalf and appropriate the same accordingly for such purposes as it may deem fit under the Byelaws and Regulations; Provided that, the clearing member may identify and segregate margin payments made by him to Clearing Corporation / Clearing House as to whether it is on his own account or on account of his clients’.

## **6.7 Statement of Shortage /Default in payment of margins**

6.7.1 In the event of non-performance of clearing member of his obligations or his being declared as defaulter, such clearing member shall submit to the Clearing Corporation/Clearing House, a statement containing a list of client codes, names of the clients, open positions of each client, client-wise margin amount due and paid to the Clearing Corporation / Clearing House , client-wise settlement amount payable to/receivable from the Clearing Corporation / Clearing House and client-wise settlement amount paid to the Clearing Corporation / Clearing House The clearing member shall also specifically attribute such failure/shortage/default in payment of margins and/or settlement dues either to himself or his clients’ and the amount of such shortage/default.

6.7.2 The Clearing Corporation / Clearing House shall use such statement provided by the Clearing Member for appropriating the margin monies with the Clearing Corporation / Clearing House towards the dues of the Clearing Corporation / Clearing House to the extent of shortage/default of obligations and for the purpose of settling the amounts due to clients’

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<sup>131</sup> Substituted with effect from May 2, 2011

as the case may be, unless the contrary is proved to the satisfaction of the Clearing Corporation / Clearing House / Defaults Committee.

6.7.3 The Clearing Corporation / Clearing House shall appropriate the margin monies with the Clearing Corporation / Clearing House for settling the dues of the clients' before settling the dues of the Clearing Members.

6.7.4 Notwithstanding the above, in the event of any Clearing Member being declared as a defaulter, the statement, furnished by the Trading Member to such Clearing Member, providing the amounts paid by Trading Member on his own account or is paid on behalf of his clients' shall be conclusive and binding on himself, his Clearing Member and all his clients' unless the contrary is proved to the satisfaction of the Clearing Corporation / Clearing House / Defaults Committee.

## **6.8 Clearing/Exposure Limit**

6.8.1 The Clearing Corporation / Clearing House may at any time in its absolute discretion:

- (a) Prescribe maximum long and or short open positions for all or any of the CD Clearing Members and their clients including quantity and or value for any or all <sup>132</sup>[Derivatives Contracts];
- (b) Prescribe clearing/exposure limit for a market type either in quantity or value or as a percentage of the base capital of the CD Clearing Member or a combination of any of the above or such other method as the relevant authority may decide from time to time for all or any of the CD Clearing Members;

6.8.2 The Clearing Corporation / Clearing House may at any time impose, increase, reduce or remove any clearing/exposure limits pursuant to the above regulations by notifying the Specified Exchange and the relevant CD Clearing Member(s). Any imposition, removal or change in clearing/exposure limits so notified shall take effect as stipulated in such notification.

6.8.3 The Clearing Corporation / Clearing House may at its discretion allow CD Clearing Members to increase their clearing/exposure limit on deposit of additional base capital with the Clearing Corporation / Clearing House. The Clearing Corporation / Clearing House shall specify from time to time the method of calculation of base capital and mode of deposit of additional base capital.

## **6.9 Exceeding clearing/exposure limits**

6.9.1 If a CD Clearing Member exceeds any clearing/exposure limit imposed, the Clearing Corporation / Clearing House shall be entitled to require the CD Clearing Member to close out open positions or take such other measures as may be specified by the relevant

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<sup>132</sup> Substituted with effect from May 2, 2011

authority from time to time, which may in the opinion of the Clearing Corporation / Clearing House result in the CD Clearing Member complying with the clearing/exposure limits.

- 6.9.2 If a CD Clearing Member fails to comply with any requirement of the Clearing Corporation/Clearing House, the Clearing Corporation / Clearing House may close out such open positions on the CD Clearing Member's behalf or take such other measures required to comply with the clearing/exposure limits including withdrawal of trading and/or clearing facility.

## **7. SETTLEMENT OF FUTURES CONTRACTS**

### **7.1 Daily Mark to Market Settlement for Futures Contracts**

7.1.1 All open positions whether long or short of a CD Clearing Member in Futures Contracts shall be deemed to have been closed out at the daily settlement price, and such member shall be liable to pay to, or entitled to collect from the Clearing Corporation / Clearing House any loss or profit, as the case may be, represented by the difference between the price at which the Futures Contract was bought or sold, or the settlement price of the previous trading day and the daily settlement price of the transaction at the end of the trading day, as the case may be.

7.1.2 After making such settlement with the Clearing Corporation / Clearing House, such member shall be deemed long or short, such Futures Contract, as the case may be, at the daily settlement price. The daily settlement obligation shall be paid only in cash.

### **7.2 Daily Settlement Price**

Daily settlement price shall be the closing price of the Futures Contracts for the trading day or such other price as may be decided by the relevant authority from time to time.

### **7.3 Advance call for daily mark to mark settlement**

If the market conditions or price fluctuations are such that the relevant authority deems it necessary, it may call upon the CD Clearing Members which in its opinion are affected, to deposit with the Clearing Corporation / Clearing House by such time as specified by the relevant authority, the amount of funds that it estimates will be needed to meet such settlements as may be necessary.

### **7.4 Settlement of Futures Contracts which are closed out**

Futures Contracts which are closed out by offsetting positions shall be settled as per the procedure prescribed by the relevant authority from time to time.

### **7.5 Final Settlement**

All open positions of CD Clearing Members in the Futures Contracts at the close of trading hours on the last trading day shall be settled as per the procedure specified by the relevant authority from time to time. On completion of final settlement, open positions in such futures contracts shall ipso facto cease to exist.

<sup>133</sup>[7.6]      **Final Settlement Price**

Final Settlement Price shall be the price determined in terms of the formulations specified by the relevant authority from time to time.]

**7.7      Clearing Forms**

All Clearing Forms shall be as specified in the relative regulation or in such other form or forms as the relevant authority may from time to time prescribe in addition thereto or in modification or substitution thereof.

**7.8      Daily and Final Settlement Obligations Statements**

Clearing Corporation / Clearing House shall generate and provide to each CD Clearing Member, Daily and Final Settlement Obligations Statements pertaining to transactions in different kinds of Futures Contracts.

**7.9      Mode of Payment**

All CD Clearing Members shall, on the designated pay-in day, have clear balance of funds in their clearing account to the extent of their funds obligation;

Provided however the relevant authority may specify different mode of payment of funds for all or any of the CD Clearing Members.

**7.10      Receipt of Funds**

The Clearing Bank shall credit the clearing accounts of the CD Clearing Members who are due to receive funds as per the instructions of the Clearing Corporation. All funds due to a CD Clearing Member shall normally be credited to his account unless (a) the CD Clearing Member does not perform his obligations to the Clearing Corporation/Clearing House or (b) it is otherwise ordered by the relevant authority;

Provided however the relevant authority may specify different mode of funds credit for all or any of the CD Clearing Members.

<sup>134</sup>[7.11]      **Settlement by Delivery**

7.11.1      Were the Derivatives Contracts are settled by delivery of Deliverable Grade Securities, documents and papers and payment of all deals shall be in such manner and at such place(s) as may be prescribed by the relevant authority from time to time.

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<sup>133</sup> Substituted with effect from May 2, 2011

<sup>134</sup> Inserted with effect from May 2, 2011

7.11.2 Upon the failure of a CD Clearing Member to fulfill his settlement obligations, the CD segment shall closeout the positions of the defaulter member in accordance with Chapter 9 and take such other measures as may be prescribed by the relevant authority from time to time.]



## **8. SETTLEMENT OF OPTION CONTRACTS**

### **8.1 Daily Premium Settlement for Option contracts**

CD Clearing Members with premium payable positions are obliged to effect pay-in to Clearing Corporation / Clearing House of the premium value at which the option contracts were purchased, towards settlement. CD Clearing Members with premium receivable positions are entitled to receive the premium value at which the option contracts were sold, towards settlement, from Clearing Corporation/ Clearing House.

- (a) Mode of premium settlement: The daily premium settlement obligation shall be paid in cash or such other form as may be specified by the relevant authority.
- (b) Style of premium settlement: The style of premium settlement may be premium style or future style or such other style as may be specified by the relevant authority from time to time. Clearing Corporation will specify the style of premium settlement for all option contracts that are to be cleared and settled. Clearing Corporation will, from time to time, specify the method for premium settlement for one or more styles of premium settlement.
- (c) Method of premium settlement: The relevant authority will from time to time specify the method of premium settlement, in accordance with the specified style of premium settlement. Clearing Corporation will arrive at the premium settlement amount payable or receivable by the respective Clearing Members at the end of each trading day or such other time, as may be specified by the relevant authority from time to time, for all option contracts admitted, in accordance with the method of premium settlement, and communicate the same to the Clearing Members. Accordingly, such Clearing Members will pay or receive such premium settlement amount towards premium settlement to or from Clearing Corporation.
- (d) Time of premium settlement: The relevant authority will specify from time to time the day and time when Premium settlement will take place.

### **8.2 Exercise**

#### **(a) Type of Exercise**

Type of exercise for an option contract may be Voluntary or Automatic or such other type as may be specified by the relevant authority from time to time.

#### **1. Voluntary Exercise**

Voluntary exercise is the exercise of option contract by a Clearing Member, at his volition, subject to the Rules, Bye-laws and Regulations.

**2. Automatic Exercise**

Automatic exercise is the exercise of all in-the-money strike price option contracts, which are automatically deemed to be irrevocably exercised, on the Expiration date, subject to the Rules, Bye-laws and Regulations. Notwithstanding the foregoing, if a Clearing Member desires not to exercise an in-the-money strike price option contract, it shall be the responsibility of such Clearing Member to give appropriate instructions in accordance with Regulation 8.2(c).

Exercise of an option contract at a strike price other than in-the money strike price shall be at the discretion of the relevant authority and subject to the requirements as may be specified by the relevant authority from time to time.

**(b) Exercise Mechanisms**

Exercise mechanism may be Interim or Final or such other mechanism as may be specified by the relevant authority from time to time.

**1. Interim Exercise**

Interim Exercise is the exercise of an option contract at anytime prior to expiration day or such other day and/ or time as may be specified by the relevant authority from time to time. Interim exercise is voluntary. Settlement of such contracts shall be in accordance with the provisions specified by the relevant authority for Exercise Settlement in Regulation 8.4.1.

**2. Final Exercise**

Final Exercise is the exercise of an option contract on or before expiration time on expiration day or such other day and/ or time as may be specified by the relevant authority from time to time. Final exercise may be automatic or voluntary.

Settlement of such contracts shall be in accordance with the provisions specified by the relevant authority for Exercise Settlement in Regulation 8.4.2.

**(c) Exercise procedure**

The procedure for exercise of an option contract by a Clearing Member shall be as specified hereinafter or such other procedure as may be specified by the relevant authority from time to time:

**1. Notice of exercise to Clearing Corporation / Clearing House**

The relevant authority may specify from time to time the provisions regarding exercise of option contracts including:

- (a) type of members who may exercise

- (b) facility/system for tendering notice of exercise.
- (c) day/s when exercise notice may be submitted
- (d) minimum lot size of option contracts which may be exercised
- (e) time period within which exercise notice may be submitted
- (f) maximum number of option contracts which may be exercised on a day or within a period, for a member or for the market
- (g) strike price (i.e. in-the-money and/or at-the-money and/or out-of the-money) at which the option contract may be exercised
- (h) such other conditions as it deems fit

Notice for exercise shall be deemed to be on long positions in an option contract at the close of trading hours on the day the notice of exercise has been tendered, or such other day/ time as may be specified by the relevant authority from time to time.

No Clearing Member shall revoke or modify any exercise notice so submitted except as provided under the Rules, Bye-laws and Regulations.

## **2. Acceptance of Exercise notice by Clearing Corporation / Clearing House**

An exercise notice which has been tendered in accordance with the provisions as detailed in Regulation 8.2(c).1 may be considered for acceptance by the relevant authority.

Such exercise notices received by the relevant authority shall be declared as valid or invalid after processing, at the close of trading hours on the day on which the exercise notice has been tendered, or on such other day or time, as may be specified by the relevant authority from time to time. All valid exercise notices will be accepted by the relevant authority and invalid exercise notices shall stand automatically rejected by the relevant authority.

Notwithstanding the foregoing, the relevant authority may, in the interest of market, declare an exercise notice as invalid where:

- 2.1 the entity who has tendered a notice for exercise has no open long positions in that contract, at the time when such notice is processed by the relevant authority.
- 2.2 any other reason.

## **3. Revocation of an exercise notice**

Unless permitted otherwise by the relevant authority, all valid exercise notices shall be irrevocable.

## **4. Restrictions on Exercise**

The relevant authority shall have an authority to impose such restrictions on exercise in any option contract as it may deem necessary in the interest of maintaining a fair and orderly market in the option contract or in the underlying securities or otherwise may deem advisable in the public interest or for the protection of investors or any other reason as the relevant authority may deem fit. Any exercise in contravention of such restriction shall be automatically invalid and not enforceable.

### **8.3 Assignment**

#### **(a) Assignment methods**

Assignment methods may be Proportional or Random or such other methods as may be specified by the relevant authority from time to time.

##### **1. Proportional Assignment**

Proportional Assignment is an allocation of exercised option contracts, proportionally, in market lots, as specified for the relevant option contract, to one or more than one short positions in the option contract with the same series, in accordance with the procedure as may be specified by the relevant authority from time to time.

##### **2. Random Assignment**

Random Assignment is an allocation of exercised option contracts, randomly, in market lots, as specified for the relevant option contract, to one or more than one short position, in the option contract with the same series, in accordance with the procedure as may be specified by the relevant authority from time to time.

#### **(b) Assignment procedure**

The relevant authority may specify the assignment procedure, including day and/ or time when assignment will take place. Exercise notices accepted by Clearing Corporation / Clearing House as valid will be assigned in accordance with the Assignment procedure, to short positions in the option contracts, with the same series, to the clients of Clearing Members or Trading Members or clients of Trading Members, for fulfillment of obligations. Such short positions, to which the exercised option contracts are assigned, shall be termed as assigned option contracts for the purpose of settlement. The assigned Member shall be liable to fulfill his obligation in accordance with the Exercise settlement procedure specified for the option contract and the Rules, Bye-laws and Regulations.

### **8.4 Exercise Settlement**

Exercise settlement may be Interim or Final. The Relevant Authority may specify from time to time the procedure, mode, method, days, time etc. for Interim Exercise settlement and Final Exercise settlement.

#### **8.4.1 Exercise Settlement**

The Relevant Authority may specify the exercise type and mechanism of settlement from time to time.

##### **8.4.1.1 Mode of settlement:**

Mode of settlement may be either cash settled or by creation of obligations in underlying segment or such other mode as may be specified by the Relevant Authority from time to time. Settlement by creation of obligations in underlying segment may be either cash based or delivery based.

##### **8.4.1.2 Method of settlement:**

###### **8.4.1.2.1 Cash settlement:**

An exercised option contract and the short position, to which such exercised option contract has been assigned, shall be settled at the exercise settlement price or such other price, as may be specified by the Relevant Authority from time to time.

Clearing Member, who has been assigned the option contract, shall be liable to pay to or entitled to receive from Clearing Corporation / Clearing House the exercise settlement value for each unit of the option contract, as the case may be, subject to the Rules, Byelaws and Regulations.

Clearing Member, who has exercised the option contract, shall be entitled to receive from, or liable to pay to, Clearing Corporation / Clearing House the exercise settlement value for each unit of the option contract, as the case may be, subject to the Rules, Byelaws and Regulations.

###### **8.4.1.2.2 Settlement by Creation of Obligation in the underlying security and underlying segment**

Clearing Corporation / Clearing House shall, at its discretion, be entitled to create obligations in the underlying currency or in local currency in the CD segment, in respect of both clearing members, who have exercised option contract and to whom such exercised option contracts have been assigned.

An option contract, which has been exercised and the short position to which such exercised option contract has been assigned, shall be settled by the method of creating obligations in an equivalent amount of local or relevant currency, conveyed by the option contract, at the strike price of the option contract or such other method as may be specified by the Relevant Authority from time to time.

**A. Delivery Based:**

- (1) As approved by SEBI and exchange, obligations in an equivalent amount of foreign currency or local currency, conveyed by an exercised option contract, shall be created, in accordance with the option type and series, at the strike price, on or after the day of exercise, in the relevant underlying segment of Clearing Corporation / Clearing House. The Relevant Authority may specify from time to time the day and time for creation of obligations in the underlying security for valid exercised option contracts.
- (2) Obligations in an amount of foreign currency or local currency, conveyed by an assigned option contract, shall be created, in accordance with the option type and series, at the strike price, on or after the day of exercise, in the relevant underlying segment of Clearing Corporation / Clearing House. The Relevant Authority may specify from time to time the day and time for creation of obligations in the underlying security for valid assigned option contracts.
- (3) The Clearing Member who has exercised or has been assigned, as the case may be, the option contract, shall be liable to fulfill the delivery or payment obligations, so created, as the case may be, to Clearing Corporation / Clearing House. On fulfillment of such obligation, he shall be entitled to receive funds or underlying currency, as the case may be, from Clearing Corporation / Clearing House, subject to and in accordance with the Rules, Byelaws and Regulations of the underlying segment of Clearing Corporation / Clearing House.
- (4) Obligations, in relation to an option contract, shall be deemed to have been settled, in accordance with the Rules, Bye-laws and Regulations of CD Segment, ipso facto, upon creation of obligations in the relevant underlying security in the relevant underlying segment of Clearing Corporation / Clearing House;  
  
Provided however if a Clearing Member fails to meet his obligations so created in the underlying Segment, the Settlement Fund of the Futures & Options Segment may be utilised to meet such obligations in accordance with the Rules, Byelaws and Regulations.
- (5) Obligations created in the relevant underlying segment of Clearing Corporation, pursuant to the exercise and assignment of an option contract shall be settled, as per the Rules, Bye-laws and Regulations of such underlying segment of Clearing Corporation/Clearing House.

**B. Cash Based:**

- (1) An exercised option contract and assigned option contract shall be settled by the method of creating obligations in the relevant underlying segment, conveyed by the option contract, on or after the day of exercise. The Relevant Authority may specify from time

to time the day and time for creation of obligations in the underlying security for valid exercised option contracts.

- (2) Clearing Member, who has been assigned the option contract, shall be liable to pay to or entitled to receive from Clearing Corporation / Clearing House the exercise settlement value for each unit of the option contract, as the case may be, subject to the Rules, Byelaws and Regulations.
- (3) Clearing Member, who has exercised the option contract, shall be entitled to receive from or liable to pay to Clearing Corporation / Clearing House the exercise settlement value for each unit of the option contract, as the case may be, subject to the Rules, Byelaws and Regulations.
- (4) Obligations created on behalf of a Clearing member in the relevant underlying segment of Clearing Corporation / Clearing House, pursuant to the exercise and assignment of an option contract, shall be settled, as per the Rules, Bye-laws and Regulations of such underlying segment of Clearing Corporation / Clearing House.
- (5) Obligations, in relation to an option contract, shall be deemed to have been settled, in accordance with the Rules, Bye-laws and Regulations of CD Segment, ipso facto, upon creation of obligations in the relevant underlying security in the relevant underlying segment of Clearing Corporation/ Clearing House ;  
Provided however if a Clearing Member fails to meet his obligations so created in the underlying Segment, the Settlement Fund of the Futures & Options Segment may be utilised to meet such obligations in accordance with the Rules, Byelaws and Regulations.

#### **8.4.1.3 Day and Time of Settlement:**

The Relevant Authority may specify from time to time the day and time when the settlement shall take place.

#### **8.5 Clearing Forms**

All Clearing Forms shall be as specified in the relative regulation or in such other form or forms as the Relevant Authority may from time to time prescribe in addition thereto or in modification or substitution thereof.

#### **8.6 Settlement Obligations Statements**

Clearing Corporation / Clearing House may facilitate download of relevant data to Clearing Members and Trading Members to enable them to generate Premium Settlement, Other Settlement Obligations Statements pertaining to transactions in different kinds of option

contracts.

#### **8.7 Mode of Payment**

All F& O Clearing Members shall, on the designated pay-in-day, have clear balance of funds in their clearing account to the extent of their funds obligation;

Provided however the Relevant Authority may specify different mode of payment of funds for all or any of the CD Clearing Members.

#### **8.8 Receipt of Funds**

The Clearing Bank shall credit the clearing accounts of the CD Clearing Members who are due to receive funds as per the instructions of the Clearing Corporation / Clearing House. All funds due to a CD Clearing Member shall normally be credited to his account unless (a) the CD Clearing Member does not perform his obligations to the Clearing Corporation / Clearing House or (b) it is otherwise ordered by the Relevant Authority;

Provided however the Relevant Authority may specify different mode of funds credit for all or any of the CD Clearing Members.



## 9. CLOSING OUT

### 9.1 Transfer of open positions and closing-out when effected

Upon the failure of a CD Clearing Member to comply with any of the provisions relating to margins, clearing/exposure limits, daily mark to market settlement and final settlement, failure to fulfill the terms and conditions subject to which the transactions in <sup>135</sup>[Derivatives Contracts] have been made or for such other reasons as the relevant authority may specify from time to time, the relevant authority may:

- (a) transfer all or any of the open positions of clients or such other open positions of the defaulting clearing member as may be decided from time to time to any other CD Clearing Member who agrees to accept such transfer subject to such terms and conditions as may be specified by the relevant authority from time to time and / or
- (b) close-out all or any of the open positions by buying-in or selling out against the defaulting CD Clearing Member.

### 9.2 Closing-out in specific cases

Without prejudice to the generality of the provision contained as above closingout may be effected in cases specified in the relative Regulations or in such other cases as the relevant authority may from time to time specify in addition thereto or in modification thereof.

### 9.3 Clearing Corporation / Clearing House entitled to close-out without notice

In respect of <sup>136</sup>[Derivatives Contracts] settled through the Clearing Corporation/ Clearing House, the Clearing Corporation/Clearing House shall be entitled to closing out against the party in default. In such cases no notice of closing-out shall be given to the CD Clearing Member against whom the closing-out is to be effected.

Without prejudice to the generality of the above provision, closing-out without notice may be effected in cases specified in the relative Regulation or in such other cases as the relevant authority may from time to time specify in addition thereto or in modification or substitution thereof.

### 9.4 Closing-Out Contracts with Defaulter CD Clearing Member

If a CD Clearing Member is declared a defaulter the Clearing Corporation/Clearing House shall determine all outstanding obligations by closing-out all open positions against him in accordance with the Bye Laws and Regulations relating to default.

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<sup>135</sup> Substituted with effect from May 2, 2011

<sup>136</sup> Substituted with effect from May 2, 2011

## **9.5 Closing-Out Contracts with Deceased CD Clearing Member**

On the death of a CD Clearing Member having outstanding obligations, the relevant authority may at its discretion give permission to his heirs or legal representatives to settle such outstanding obligations according to the terms thereof. In the event of such permission not being applied for or granted, the Clearing Corporation / Clearing House shall forthwith determine all outstanding obligations by closing out against the deceased member. The loss, if any, on such closing-out shall be claimed from the heirs or legal representatives of the deceased member and the profit, if any, shall be paid to them by the Clearing Corporation / Clearing House after obtaining approval of the relevant authority. If the heirs or legal representatives of the deceased member fail to pay the amount claimed from them it shall be as if such deceased member has been declared a defaulter and in that event the Bye Laws and Regulations relating to default shall apply.

## **9.6 Closing-Out How Effected**

Closing-out shall be affected against a CD Clearing Member by the Clearing Corporation in any of the following manner:

- (a) by buying-in or selling-out against the CD Clearing Member through an auction initiated by the Clearing Corporation / Clearing House;
- (b) by declaring a closing-out at such prices as may be decided by the relevant authority;
- (c) by buying-in or selling-out against the CD Clearing Member by placing order in the specified exchange;
- (d) in any other manner as the relevant authority may decide from time to time.

## **9.7 Bids and Offers**

Unless permitted otherwise by the relevant authority, CD Clearing Members other than those against whom the closing-out is effected may make a bid or offer during such closing-out. The relevant authority shall at its discretion refuse any bid or offer given.

## **9.8 Closing-Out Clearing Member's Responsibility**

Save as otherwise provided the CD Clearing Member at whose instance or on whose behalf the buying-in or selling-out is effected by the Clearing Corporation / Clearing House for the purpose of closing-out shall be responsible for the deal made and no liability or responsibility shall attach to the Clearing Corporation/Clearing House or its employees for any deal made in pursuance of such closing-out.

## **9.9 Postponement by the Relevant Authority**

The relevant authority may defer closing-out in any particular case if in its opinion a fair market to close-out is not available or in such other circumstances as it may specify from time to time but no such deferment shall relieve the party in default of any resulting damages or free the intermediate parties of their liabilities.

## **9.10 Suspension or Postponement of Closing-Out**

The relevant authority may suspend or postpone buying-in or selling-out in respect of any <sup>137</sup>[Derivatives Contracts] and from time to time extend or postpone the period of such extension or postponement when circumstances appear in its view to make such suspension or postponement desirable in the general interest.

## **9.11 Closing-Out against Defaulter**

When closing-out is effected as provided above and the CD Clearing Member concerned is declared a defaulter the difference arising from closing-out shall be recovered from the said member or distributed in accordance with the Bye Laws and Regulations relating to default.

## **9.12 Charges for Closing-Out**

When closing-out is effected on the advice of the Clearing Corporation / Clearing House the CD Clearing Member against whom the closing-out takes place shall pay to the Clearing Corporation / Clearing House such charges as the relevant authority may from time to time prescribe.

## **9.13 Loss Arising From Closing-Out**

When closing-out is effected on the advice of the Clearing Corporation / Clearing House on account of a CD Clearing Member failing to fulfill any of his obligations (including the margin obligations) the resulting loss shall accrue to such member and shall be paid by him forthwith to the Clearing Corporation/Clearing House.

## **9.14 Profit Arising From Closing-Out**

When closing-out is effected on the advice of the Clearing Corporation / Clearing House on account of a CD Clearing Member failing to fulfill any of his obligations (including the margin obligations) any profit arising therefrom shall be credited to the account of the Settlement Fund or such other funds as may be set up by the relevant authority from time to time to be held by the Clearing Corporation / Clearing House such purposes as may be

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<sup>137</sup> Substituted with effect from May 2, 2011

specified by the relevant authority.

**9.15 Default if Closing-Out Loss and Damage Not Paid**

If any CD Clearing Member against whom a deal is closed-out under the provisions of these Regulations fails to make payment of the loss arising out of the closing-out and of the damages if any within such time as may be stipulated by the relevant authority from time to time, he shall be declared a defaulter.

## **10. CLEARING BANK**

### **10.1 Clearing Corporation / Clearing House to Regulate**

The relevant authority shall specify from time to time the processes, procedures, and operations that every CD Clearing Member shall be required to follow for the purpose of funds transactions through their clearing account with the Clearing Bank(s).

### **10.2 Functions of Clearing Bank**

The Clearing Corporation / Clearing House shall appoint Clearing Bank(s) for the purpose funds settlement, for the collection of margin money for all transactions entered into through the Clearing Corporation / Clearing House and any other funds movement between CD Clearing Members and the Clearing Corporation / Clearing House and between CD Clearing Members inter se.

### **10.3 CD Clearing Members to have Account with the Clearing Bank**

Every CD Clearing Member of the Clearing Corporation / Clearing House shall have clearing account(s) with designated Clearing Bank branch(es). CD Clearing Members shall operate the clearing account(s) only for the purpose of settlement of deals entered through the Clearing Corporation / Clearing House, for the payment of margin money and for any other purpose as may be specified by the relevant authority from time to time. The clearing accounts may be for any or all of the segments as may be specified by the relevant authority. The CD Clearing Member shall not operate the clearing account(s) for any other purpose.

### **10.4 Clearing Bank to act as per the Instructions of the Clearing Corporation**

The Clearing Corporation / Clearing House shall instruct the Clearing Bank as to the debits and credits to be carried out for the funds settlement between CD Clearing Members. The Clearing Bank shall act as per the instructions received from the Clearing Corporation for the funds movement. Instructions of the Clearing Corporation / Clearing House as to debits and credits to a CD Clearing Member's accounts shall be deemed to be confirmed orders by a CD Clearing Member to debit his account and/or credit his account funds as specified in the instruction.

### **10.5 Clearing Bank to inform Clearing Corporation/Clearing House of default in Funds Settlement**

If there is any funds default arising out of the instructions received from the Clearing

Corporation / Clearing House, the Clearing Bank shall inform the Clearing Corporation / Clearing House immediately.

**10.6 Members to authorize Clearing Bank**

CD Clearing Members shall authorise the Clearing Bank to access their clearing account for debiting and crediting their accounts as per instructions received from the Clearing Corporation / Clearing House.

**10.7 Clearing Account(s) of Clearing Corporation/Clearing House in the Clearing Bank**

Unless otherwise specified in respect of any deals as may be specified by the relevant authority, no clearing member or any person claiming through him shall have or be deemed to have any right, title or interest in any monies in the Clearing Account or other account/(s), as the relevant authority may from time to time prescribe, of the Clearing Corporation / Clearing House with the Clearing Bank.

The relevant authority may specify from time to time the deals in respect of which all sums of monies paid into the Clearing Account or other account/(s), as the relevant authority may from time to time prescribe, of the Clearing Corporation / Clearing House on account of any CD Clearing Member entitled thereto, shall be held by the Clearing Corporation / Clearing House as agents and in trust for such Clearing Member. In such cases, the making of such payment or credit entry shall be deemed and taken to be a payment or credit to such clearing member.

**10.8 Clearing Number and Clearing Forms**

A Clearing Member shall be allotted a Clearing Number which must appear on all forms used by the clearing member connected with the operation of the Clearing Corporation. The Clearing Forms and Formats to be used by the CD Clearing Members shall be as specified by the Clearing Corporation / Clearing House and unless otherwise permitted no other form or format shall be used.

**10.9 Signing of Clearing Forms**

All Clearing Forms shall be signed by the CD Clearing Member or his authorised signatories.

**10.10 Specimen Signatures**

A CD Clearing Member shall file with the Clearing Corporation / Clearing House specimens of his own signature and of the signatures of his authorised representatives. The specimen signature card shall be signed by the CD Clearing Member and his Authorised Representatives in the presence of an officer of the Clearing Corporation / Clearing House.

## 11. CODE OF CONDUCT FOR CD CLEARING MEMBERS

### 11.1 General Principles

#### 11.1.1 Professionalism

A CD Clearing Member in the conduct of his business shall observe high standards of commercial honour of just and equitable principles of trade. A CD Clearing Member shall have and employ effectively the resources and procedures which are needed for the proper performance of his business activities.

#### 11.1.2 Adherence to Clearing Practices

CD Clearing Members shall adhere to the Rules, Regulations and Bye Laws of the Clearing Corporation/Clearing House and shall comply with such operational parameters, rulings, notices, guidelines and instructions of the relevant authority as may be applicable from time to time.

#### 11.1.3 Honesty and Fairness

In conducting his business activities, a CD Clearing Member shall act honestly and fairly, in the best interests of his constituents.

### 11.2 Settlement Principles

11.2.1 CD Clearing Members shall ensure that the fiduciary and other obligations imposed on them and their staff by the various statutory acts, rules and regulations are complied with.

11.2.2 CD Clearing Members shall ensure that employees are adequately trained in the practices of the relevant clearing segment in which they deal, clear and settle, are aware of their own, and their organization's responsibilities as well as the relevant statutory acts governing the Clearing Member, the Rules, Regulations and Bye Laws of the Clearing Corporation including any additions or amendments thereof.

11.2.3 When entering into transactions on behalf of constituents, the CD Clearing Members shall ensure that they abide by the Code of Conduct and regulations as enumerated in the current chapter of these regulations.

11.2.4 No CD Clearing Member or person associated with a CD Clearing Member shall make improper use of constituent's securities or funds.

11.2.5 When entering into or arranging transactions, CD Clearing Members must ensure that at all times great care is taken not to misrepresent in any way the nature of transaction.

11.2.6 No CD Clearing Member shall exercise any discretionary power in a client's account unless such client has given prior written authorisation to a stated individual or individuals and the account has been accepted by the Clearing Member, as evidenced in writing by the clearing member.

**11.3 General Guidelines**

A CD Clearing Member shall desist from the following practices while conducting business on the Clearing Corporation/Clearing House.

**11.4 Shielding or Assisting**

No CD Clearing Member shall shield or assist or omit to report any Clearing Member whom he has known to have committed a breach or evasion of any Rules, Bye Laws or Regulations of the Clearing Corporation / Clearing House or of any resolution, order, notice or direction thereunder of the Governing Board or the Managing Director or of any committee or officer of the Clearing Corporation / Clearing House authorised in that behalf.



## **12. CONDUCT OF BUSINESS BY CLEARING MEMBERS**

### **12.1 Office Related Procedure**

12.1.1 Every CD Clearing Member shall ensure that all persons acting on his behalf shall subscribe at all times to high standards of professional expertise and integrity.

12.1.2 Each CD Clearing Member shall at all times maintain such infrastructure, staff, communication facilities and records so as to be able to service his constituents satisfactorily and as per the requirements enumerated in the Clearing Corporation / Clearing House Bye Laws, Rules and Regulations, or any other relevant act(s) in force for that time being.

12.1.3 Where the Clearing Corporation / Clearing House feels it necessary, in the public interest to do so, it may at its own instance or on a complaint from another CD Clearing Member or client, seek explanation from the CD Clearing Member regarding the level of service or professional conduct of the Clearing Member or any of his staff where such service or conduct has been found unsatisfactory or contrary to principles enumerated in the Clearing Corporation / Clearing House Bye Laws, Rules and Regulations, or notifications, directions or circulars issued thereunder.

### **12.2 Supervision**

#### **12.2.1 Procedures to be followed**

(a) Each CD Clearing Member shall establish, maintain, and enforce procedures to supervise its business and to supervise the activities of its employees that are reasonably designed to achieve compliance with the Clearing Corporation / Clearing House Bye Laws, Rules and Regulations and any notifications, directions etc. issued thereunder as well as the relevant statutory acts.

(b) The CD Clearing Member shall maintain an internal record of the names of all persons who are designated as supervisory personnel and the dates for which such designation is or was effective. Such record shall be preserved by the CD Clearing Member for a period of not less than three years.

(c) Every CD Clearing Member shall specifically authorise in writing person or persons, who may be authorised to transact on behalf of the clearing member and to do such acts which clearing member may wish to delegate to such person, and make available a copy of such power of attorney to the Clearing Corporation / Clearing House before such person transacts any business on the Clearing Corporation / Clearing House.

(d) A CD Clearing Member shall maintain such records and make available to inspection by any person authorised in this behalf by the Clearing Corporation / Clearing House, the

information related to such Clearing member's financial condition as specified by the Clearing Corporation for this purpose.

- (e) The CD Clearing Member shall pay such fees, charges and other sum as the Clearing Corporation/Clearing House may notify from time to time, in such time and manner as required by the Clearing Corporation/Clearing House.
- (f) The CD Clearing Member must inform the Clearing Corporation/Clearing House of any change in the status and constitution, operation, activities of the clearing member's entity.

### **12.2.2 Internal inspections**

Each CD Clearing Member shall conduct a review, at least annually, of the business in which it engages, which shall be reasonably designed to assist in detecting and preventing violations of and achieving compliance with Bye Laws, Rules and Regulations.

### **12.2.3 Written Approval**

Each CD Clearing Member shall establish procedures for the review and endorsement by an appropriate senior officer in writing, on an internal record, of all transactions and all correspondence of its employees pertaining to the solicitation of any transaction.

## **12.3 Relation with the Constituents**

- 12.3.1 When establishing a relationship with a new client, CD Clearing Members must take reasonable steps to assess the background, genuineness, financial soundness of such person, and his objectives.
- 12.3.2 CD Clearing Member shall make the constituent aware of the precise nature of the clearing member's liability for business to be conducted, including any limitations on that liability and the capacity in which the clearing member acts and the constituents' liability thereon.
- 12.3.3 The CD Clearing Member shall provide extracts of relevant provisions governing the rights and obligations of constituents as constituents of CD Clearing Members as specified in the Bye Laws, Rules and Regulations, relevant manuals, notifications, circulars any additions or amendments thereto etc. of the CD Segment of the Clearing Corporation / Clearing House , or of any regulatory authority, to the extent it governs the relationship between CD Clearing Members and constituents, to the constituents at no extra cost. The CD Clearing Member shall also bring to the notice of his constituents, any indictments, penalties etc. imposed on him by the Clearing Corporation / Clearing House or any other regulatory authority.

## **12.4 Recommendations to the Constituents**

- 12.4.1 A CD Clearing Member shall make adequate disclosures of relevant material information in its dealing with his constituents.
- 12.4.2 No CD Clearing Member or person associated with the Clearing Member shall guarantee a constituent against a loss in any transactions effected by the clearing member with or for such constituent.

## **13. CLEARING AND OTHER FORMS**

### **13.1 Clearing Forms, Special Returns and Other Forms**

The clearing forms, special returns and other forms referred to in the Bye-laws and Regulations and not separately specified shall be in such other form or forms as the relevant authority may from time to time prescribe in addition thereto or in modification or substitution thereof.

### **13.2 Clearing Number and Clearing Forms**

A clearing member shall be allotted a Clearing Number which must appear on all forms used by the clearing member connected with the operation of the Clearing Corporation.

### **13.3 Signing of Clearing Forms**

All Clearing Forms shall be signed by the CD Clearing Member or his clearing assistant.

### **13.4 False or Misleading Statements**

The relevant authority may fine, suspend or expel a CD Clearing Member who makes any false or misleading statement in the Clearing Forms required to be submitted in conformity with these Regulations or any resolutions, orders, notices, directions and decisions of the relevant authority thereunder.

## 14. ARBITRATION

### 14.1 DEFINITIONS

- (a) 'Arbitrator' means a sole arbitrator or a panel of arbitrators.
- (b) 'Applicant' means the person who makes the application for initiating arbitral proceedings.
- (c) 'Respondent' means the person against whom the Applicant lodges an arbitration application, whether or not there is a claim against such person.

### 14.2 SEAT OF ARBITRATION

- (a) The Relevant Authority may provide for different seats of arbitration for different regions of the country either generally or specifically and in such an event the seat of arbitration shall be the place so provided by the Relevant Authority. Save as otherwise specified by the Relevant Authority, the seat of arbitration for different regions shall be as follows:

Seats of Arbitration – Regional Arbitration Centres (RACs)	States covered by the RAC
DELHI	Delhi, Haryana, Uttar Pradesh, Uttaranchal, Himachal Pradesh, Punjab, Jammu & Kashmir, Chandigarh, Rajasthan
KOLKATA	West Bengal, Bihar, Jharkhand, Orissa, Assam, Arunachal Pradesh, Mizoram, Manipur, Sikkim, Meghalaya, Nagaland, Tripura, Chhattisgarh, Andaman & Nicobar
CHENNAI	Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Lakshadweep, Pondicherry
MUMBAI	Maharashtra, Gujarat, Goa, Daman, Diu, Dadra & Nagar Haveli, Madhya Pradesh

- (b) The premises/location where arbitration shall take place shall be such place as may be identified by the Exchange from time to time and intimated to the arbitrator and the parties to the dispute accordingly.

### 14.3 CRITERIA FOR SELECTION OF SEAT OF ARBITRATION

Save as otherwise specified by the Relevant Authority, the criteria for selection of seat of arbitration for a particular matter is as follows:

Parties to Dispute	Place of filing the Application for Arbitration	Place of Hearing
T M* V/s T M	<p>a) If the dealing offices of both Trading Members from where the dealing was carried is situated in any one of the states covered by a particular RAC then the Application for Arbitration shall be filed by the Applicant-Trading Member in that RAC.</p> <p>b) If the dealing offices of both Trading Members from where the dealing was carried out are situated in states covered by different RAC then the Application for Arbitration shall be filed in the RAC covering the state in which the Respondent - Trading Member's dealing office is situated.</p>	The hearing shall be held at the RAC where the Applicant-Trading Member has filed the Application for Arbitration and the Respondent - Trading Member shall attend the hearing in that particular RAC.
TM V/s C* & C V/s TM	The Application for Arbitration shall be filed by the Applicant at the RAC covering the state in which the Constituent ordinarily resides.	The hearing shall be held in that RAC where the Applicant has filed the Application for Arbitration and the Respondent shall attend the hearing in that particular RAC.

\* "TM" stands for "Trading Member" and "C" stands for "Constituent."

<sup>138</sup>**[14.3A]** In the event the seat of Arbitration as mentioned in Regulation 14.2(a) is not in proximity to the area in which the Constituent ordinarily resides, the Constituent may request the Exchange to conduct the arbitration proceedings at the Regional Arbitration Center nearest to his ordinary place of residence.]

**14.4** Notwithstanding anything contained hereinabove and unless otherwise specifically agreed in writing between the Trading Member and the Constituent, in respect of any claims, disputes and differences arising out of internet trading between the Constituent and Trading Member, the seat of arbitration shall be the Regional Arbitration Centre within the area in which the Constituent ordinarily resided at the time of relevant trading, provided however in respect of a non-resident Indian Constituent, the seat of arbitration shall be the Regional Arbitration Centre in the area of which the correspondence office of the Trading Member is situated.

<sup>138</sup> Inserted with effect from December 30, 2011

## **14.5 REFERENCE OF THE CLAIM, DIFFERENCE OR DISPUTE**

Save as otherwise specified by the Relevant Authority, if the value of the claim, difference or dispute is more than Rupees Twenty Five Lakhs on the date of application, then such claim, difference or dispute shall be referred to a panel of three arbitrators and if the value of the claim, difference or dispute is upto Rupees Twenty Five Lakhs, then the same shall be referred to a sole arbitrator.

## **14.6 CRITERIA AND PROCEDURE FOR SELECTION OF PERSONS ELIGIBLE TO ACT AS ARBITRATORS**

- (a) For facilitating the appointment of an arbitrator, a list of persons eligible to act as arbitrators may be constituted annually by the Relevant Authority from amongst persons who possess requisite qualification, experience, and knowledge in the securities business. The list of eligible persons shall consist of only persons who are not Trading Members of the Exchange or connected with any Trading Member as its shareholder or director or partner or employee or sub-broker or authorised person. The names of the list of eligible persons shall be as specified by the Exchange from time to time.
- (b) Such list of eligible persons may be constituted for each Regional Arbitration Centre.

## **14.7 PROCEDURE FOR APPOINTMENT OF ARBITRATORS**

- (a) The Applicant and the Respondent against whom the claim has been made by the Applicant shall submit to the Exchange in the order of descending preference, names of such number of persons as specified hereunder from amongst the list of eligible persons specified by the Exchange for the respective seats of arbitration. The number of persons to be so selected by the Applicant and the Respondent shall be seven if the seat of arbitration is at Mumbai and five in other cases. Such names shall be submitted in Form No. II by the Applicant along with Form No. I. The Respondent shall submit the names in Form No. II within seven days of the receipt of Form No. I from the Exchange. Upon receiving the Form No. II from both the Applicant as well as the Respondent, the Exchange shall as provided for herein, identify the person/s who shall act as the arbitrator
- (b) The Exchange shall identify the sole arbitrator to whom the arbitration application will be referred in the following manner:
  - (i) The Exchange shall identify the most common arbitrator to whom the highest preference has been given by both the Applicant and the Respondent.
  - (ii) If no common arbitrator is identifiable, the Relevant Authority shall select an arbitrator from the lists of persons eligible to act as arbitrators excluding the persons selected by the Applicant and the Respondent. If after excluding the persons selected by the Applicant and the Respondent no eligible person is available to act as arbitrator or if the available person refuses or fails to act as arbitrator, then the Relevant Authority may select an arbitrator from the list submitted by either the Applicant or Respondent.

- (iii) In the event of the failure of Applicant and the Respondent to submit any names of eligible persons to act as arbitrators, the Relevant Authority shall select the sole arbitrator from the lists of persons eligible to act as arbitrators.
- (c) The Exchange shall identify the panel of arbitrators to whom the arbitration application will be referred in the following manner:
  - (i) The Exchange shall identify three most common arbitrators in the order of preference given by both the Applicant and the Respondent.
  - (ii) In case of matters to be referred to a panel, if no common arbitrator is identifiable or only one or two common arbitrators are identifiable, the first, the second and/or the third arbitrator as the case may be shall be selected by the Relevant Authority from the list of eligible persons excluding the persons selected by the Applicant and the Respondent. If after excluding the persons selected by the Applicant and the Respondent no eligible person is available to act as arbitrator or if the available person refuses or fails to act as arbitrator, then the Relevant Authority may select an arbitrator from the list submitted by either the Applicant or Respondent.
  - (iii) In the event of the failure of Applicant and the Respondent to submit any names of eligible persons to act as arbitrators the Relevant Authority shall select the panel of arbitrators from the lists of persons eligible to act as arbitrators.
  - (iv) The panel of arbitrators so appointed shall select one among themselves to act as a presiding arbitrator within 7 days of receipt of intimation from the Exchange appointing them to act as an arbitrator. In case of failure or lack of consensus among the panel to select a presiding arbitrator, the Relevant Authority shall select the presiding arbitrator.
- (d) If the Applicant refuses to choose the persons eligible to act as arbitrators or fails to submit Form II, and the Respondent submits Form II, then the Relevant Authority shall select an arbitrator from the balance list of eligible persons excluding, the persons selected by the Respondent. If after excluding the persons selected by the Respondent no eligible person is available to act as arbitrator or if the available person refuses or fails to act as arbitrator, then the Relevant Authority may select an arbitrator from the list submitted by the Respondent.
- (e) If the Applicant submits Form II and the Respondent fails to submit the same, then Relevant Authority shall select an arbitrator from the balance lists of eligible persons excluding the persons selected by the Applicant.
- (f) If the arbitrator chosen as per the above procedure is not able to take up the matter for whatsoever reasons and/or not available for an extended period, then the Relevant Authority shall select an arbitrator from the remaining names on the list of eligible persons excluding the persons selected by the Applicant and/or the Respondent. If after excluding the persons selected by the Applicant and the Respondent no eligible person is available to act as arbitrator or if the available person refuses or fails to act as arbitrator, then the Relevant Authority may select an arbitrator from the list submitted by either the Applicant or Respondent.



## 14.8 VACANCY IN THE OFFICE OF THE ARBITRATOR

If the office of the sole arbitrator or any one or more of the arbitrators in the panel of arbitrators falls vacant after the appointment thereto, the Exchange shall adopt the procedure specified in Regulation 14.6 herein above and fill up the vacancy within 7 days of such vacancy. For this purpose, the list of names of eligible persons in Form No. II already submitted by the Applicant and by the Respondent shall be considered.

## 14.9 DEPOSITS TOWARDS COST OF ARBITRATION

(a) The parties to the claim, difference or dispute shall bear cost of arbitration. For this purpose, both the parties to arbitration shall make a deposit with the Exchange along with Form No. I or Form No. III, as the case may be, for defraying the costs that may be incurred for conducting the arbitration proceeding provided when there is failure, neglect or refusal by Respondent, being a Constituent, to make a deposit accordingly, the Applicant shall be responsible for making such deposit without prejudice however to its right to recover the same from such Respondent in terms of the award. The Exchange shall have the right to recover the deposit from the Trading Member from the moneys due to it if the Trading Member fails to make the deposit.

<sup>139</sup>[(b) The amount of deposit, which has to be deposited shall be determined by the amount of the claim initially and thereafter determined based on a higher counter claim, if any, as specified by the Relevant Authority, subject to the maximum limits as mentioned below:

<b>S. No</b>	<b>Amount of Claim / Counter Claim, whichever is higher</b>	<b>Amount of Deposit, if claim is filed within six months (percentages refer to amount of claim or counterclaim, whichever is higher)</b>	<b>Amount of Deposit, if claim is filed after six Months (for applicant)</b>
<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>
1.	Upto Rs. 10,00,000	1.3% subject to a minimum of Rs.10,000	3.9% subject to a minimum of Rs.30,000
2.	Above Rs.10,00,000 and upto Rs.25,00,000	Rs. 13,000 plus 0.3% amount above Rs. 10 lakh	Rs. 39,000 plus 0.9% amount above Rs. 10 lakh
3.	Above Rs. 25,00,000	Rs. 17,500 plus 0.2% amount above Rs. 25 lakh subject to maximum of Rs. 30,000	Rs. 52,500 plus 0.6 % amount above Rs. 25 lakh subject to maximum of Rs.90,000

<sup>139</sup> Substituted with effect from December 30, 2011

<sup>140</sup>(c) [\*\*\*]

<sup>141</sup>[(d) If the amount of claim is less than or equal to Rs.10 lakhs, then the constituent whether he or she or it is an Applicant or Respondent shall not be required to furnish the deposit to the Exchange, where the arbitration references is filed within six months. In such cases, the costs incurred for conducting the arbitration proceedings for and on behalf of the Constituent shall be borne by the Exchange.]

<sup>142</sup>[(e) On issuance of the arbitral award, the exchange shall refund the deposit, if any, to the party in whose favor the award has been passed. In case where claim was filed within six months, the full deposit made by the party against whom the award has been passed, may be appropriated towards arbitration fees of the Exchange. In case where claim was filed after six months, one third of the deposit collected from the party shall be appropriated towards arbitration fees of the Exchange and balance two-third amount shall be credited to the Investor Protection Fund-CD Segment of the Exchange.]

<sup>143</sup>[(f) The period of six months referred in clauses (b) to (e) above, shall be computed from the end of the quarter during which the disputed transaction(s) were executed/settled, whichever is relevant for the dispute, and after excluding:-

- (i) the time taken by the Relevant Authority to administratively attempt to resolve the claim difference or dispute i.e. the time taken from the date of receipt of dispute till the decision by the Relevant Authority, and
- (ii) the time taken by the member to attempt the resolution of the dispute or one month from the date of receipt of the dispute by the member, which ever is earlier in reckoning the time taken by the Member to attempt resolution of the dispute, the time between the date of receipt of complaint/dispute by the Member and the date of receipt of the Member's last communication by the constituent, shall be considered.]

#### **14.10 PROCEDURE FOR ARBITRATION**

(a) The Applicant shall submit to the Exchange application for arbitration in Form No. I, (three copies in case of sole arbitrator and five copies in case of panel of arbitrators) along with the following enclosures:

- (i) The Statement of Case (containing all the relevant facts about the dispute and relief sought)
- (ii) The Statement of Accounts
- (iii) Copies of Member - Constituent Agreement
- (iv) Copies of the relevant Contract Notes and Bills

(b) The Applicant shall also submit to the Exchange the following along with Form No. I:

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<sup>140</sup> Omitted with effect from December 30, 2011

<sup>141</sup> Substituted with effect from December 30, 2011

<sup>142</sup> Inserted with effect from December 30, 2011

<sup>143</sup> Inserted with effect from December 30, 2011

- (i) A cheque/ pay order/demand draft for the deposit payable at the seat of arbitration in favour of Metropolitan Stock Exchange of India Limited
  - (ii) Form No. II containing list of names of the persons eligible to act as arbitrators.
- (c) If any deficiency/defect in the application is found, the Exchange shall call upon the Applicant to rectify the deficiency/defect and the Applicant shall rectify the deficiency/defect within 15 days of receipt of intimation from the Exchange. If the Applicant fails to rectify the deficiency/defect within the prescribed period, the Exchange shall return the deficient/defective application to the Applicant. However, the Applicant shall have the right to file a revised application which shall be considered as a fresh application for all purposes and dealt with accordingly.
- (d) Upon receipt of Form No. I, the Exchange shall forward a copy of the statement of case and related documents to the Respondent.
- (e) Upon receiving Form No. I, the Respondent shall submit Form II to the Exchange within 7 days from the date of receipt. If the Respondent fails to submit Form II within the time period prescribed by the Exchange, then the arbitrator shall be appointed in the manner as specified in Regulation 14.6.
- (f) Upon receiving Form No. II from the Respondent(s), the arbitrator shall be appointed as per the procedure <sup>144</sup>[prescribed in Regulation 14.7.] In the event there is more than one Respondent, being legal heirs of a deceased Constituent or family members, then such legal heirs shall authorise one of them to represent the deceased Constituent in the arbitration proceedings including signing of Form II and such other documents as may be required.
- (g) The Respondent(s) shall within 15 days from the date of receipt of Form No. I from the Exchange, submit to the Exchange in Form No. III three copies in case of sole arbitrator and five copies in case of panel of arbitrators along with the following enclosures:
- (j) The Statement of Reply (containing all available defences to the claim)
  - (ii) The Statement of Accounts
  - (iii) Copies of the Member Constituent Agreement,
  - (iv) Copies of the relevant Contract Notes and Bills
  - (v) Statement of the set-off or counter claim alongwith statements of accounts and copies of relevant contract notes and bills
- (h) The Respondent shall also submit to the Exchange a cheque/pay order/demand draft for the deposit payable at the seat of arbitration in favour of Metropolitan Stock Exchange of India Limited along with Form No.III
- (i) If the Respondent fails to submit Form III within the prescribed time, then the arbitrator may proceed with the arbitral proceedings and make the award ex parte.

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<sup>144</sup> Substituted with effect from August 17, 2011

- (j) Upon receiving Form No. III from the Respondent the Exchange shall forward one copy to the Applicant. The Applicant shall within ten days from the date of receipt of copy of Form III, submit to the Exchange, a reply to any counterclaim, if any, which may have been raised by the Respondent in its reply to the Applicant. The Exchange shall forward the reply to the Respondent.
- (k) The time period to file any pleading referred to herein may be extended for such further periods as may be decided by the Relevant Authority in consultation with the arbitrator depending on the circumstances of the matter.

#### **14.11 REQUIREMENT FOR HEARINGS**

- (a) No hearing shall be required to be given to the parties to the dispute if the value of the claim, difference or dispute is Rs.25,000/- or less. In such a case the arbitrator shall proceed to decide the matter on the basis of documents submitted by both the parties provided however the arbitrator for reasons to be recorded in writing may hear both the parties to the dispute.
- (b) If the value of claim, difference or dispute is more than Rs.25,000, the arbitrator shall offer to hear the parties to the dispute unless both parties waive their right for such hearing in writing.

#### **14.12 NOTICE OF HEARING**

Unless otherwise specified, the Exchange shall in consultation with the arbitrator determine the date, the time and place of the first hearing. Notice for the first hearing shall be given at least ten days in advance, unless the parties shall, by their mutual consent, waive the notice. The arbitrator shall determine the date, the time and place of subsequent hearings of which a notice shall be given by the Exchange to the parties concerned.

#### **14.13 ADJOURNMENT OF HEARING**

If any party to the reference wants to make an application for adjournment of hearing by the arbitrator the party shall make an application in writing giving reasons for seeking adjournment to the Exchange sufficiently in advance to enable the Exchange to forward such request to the arbitrator. The arbitrator at his discretion may grant the adjournment subject to such conditions as deemed fit by him.

#### **14.14** In the arbitral proceeding a Constituent may appear through a power of attorney holder and the trading member may appear through his authorised representative;

Provided that the trading member may appear through a legal practitioner only if the Constituent is represented through a legal practitioner.

For the purpose of this regulation, 'authorised representative' shall mean as under-

- (a) If the trading member is an individual, an employee or authorised person of the

- trading member as defined in these Regulations.
- (b) If the trading member is a partnership firm, any partner or employee or authorised person of the trading member as defined under these Regulations.
  - (c) If the trading member is a Company, any director or employee or authorized person of the trading member as defined under these Regulations.

#### **14.15 ARBITRAL AWARD ON AGREED TERMS**

If after the appointment of an arbitrator, the parties settle the dispute, then the arbitrator shall record the settlement in the form of an arbitral award on agreed terms.

#### **14.16 ARBITRAL AWARD UNDER CERTAIN CIRCUMSTANCES**

The arbitrator, in case of any arbitration proceedings which is not defended or in his opinion is not effectively defended, besides the documents produced by the applicant, may, for the purpose of passing a fair and proper award, also consider any other document in general, which the arbitrator considers necessary for the purpose of coming to a proper conclusion and in particular the following documents for the purpose of arriving at a decision:

1. Copy of member-constituent agreement.
2. Contract notes and bills.
3. Statement of accounts given by the trading member to the constituent on periodic basis.
4. Bank statements supported by confirmation from the bank regarding payments / receipts.
5. Transaction cum Holding statements of the demat account(s) of the applicants and respondents with the depository.
6. Unique id upload, if any, from the members to Exchange with regard to the client.
7. Trade log in respect of transactions relating to dispute.

For the purpose of the above, the arbitrator may also seek relevant information from the applicant as well as the Exchange, to the extent available with the Exchange.

#### **14.17 MAKING OF ARBITRAL AWARD**

- (a) The arbitral award shall be in writing and made in three originals duly dated and signed by the sole arbitrator or in case of a panel of arbitrators by all the three arbitrators.
- (b) The arbitrator shall file all the three original awards with the Exchange, which shall arrange to send one original each to the parties to the dispute and the stamped original award shall be retained by the Exchange.

#### **14.18 INTEREST**

- (a) The arbitrator may include in the sum for which the award is made interest at such rate on

such sum and for such period as the arbitrator deems reasonable.

- (b) A sum directed to be paid by an award shall, unless the award otherwise directs, carry interest at the rate of eighteen per centum per annum from the date of the award to the date of payment.

#### **14.19 ARBITRATION FEES AND CHARGES, COSTS, ETC.**

- (a) The fees and expenses payable to arbitrator shall be as determined by the Relevant Authority from time to time.
- (b) All fees and charges relating to the appointment of the arbitrator and conduct of arbitration proceedings shall be borne by the parties to the reference equally or in such proportions as may be decided by the arbitrator.
- (c) The costs, if any, to be awarded to either of the party in addition to the fees and charges that have to be borne by the parties for conducting the arbitration shall be decided by the arbitrator.
- (d) Unless the arbitrator directs otherwise each party shall bear their own expenses of traveling and other incidental expenses incurred.

#### **14.20 ADMINISTRATIVE ASSISTANCE WHICH MAY BE PROVIDED BY THE EXCHANGE**

The Exchange shall-

- (a) maintain a register of references;
- (b) receive all applications for arbitration and communications addressed by the parties before or during the course of arbitration proceedings or otherwise in relation thereto;
- (c) receive payment of all costs, charges, fees and other expenses;
- (d) give notices of hearing and all other notices to be given to the parties before or during the course of the arbitration proceedings or otherwise in relation thereto;
- (e) communicate to the parties all orders and directions of the arbitrator;
- (f) receive and record all documents and papers relating to the reference and keep in custody all such documents and papers except such as the parties are allowed to retain;
- (g) communicate the award on behalf of the arbitrator;
- (h) generally do such things and take all such steps as may be necessary to assist the arbitrator in the execution of their function.

#### **14.21 MODE OF COMMUNICATION**

- (a) Any communication sent by the Exchange to either of the parties shall be deemed to have been properly delivered or served, even if such communication is returned to the Exchange as unclaimed/ refused/ undelivered, if the same is sent to the ordinary business address and/or ordinary place of residence and/or last known address of the party, in any one or more of the following ways: -

- (i) by post,
- (ii) by registered post,
- (iii) under certificate of posting
- (iv) by speed post/courier services,
- (v) by telegram,
- (vi) by affixing it on the door at the last known business or residential address,
- (vii) by advertising it in at least one prominent daily newspaper having circulation in the area where the last known business or residential address of Respondent is situated,
- (viii) by sending a message through the Trading System,
- (ix) by electronic mail or fax
- (x) by hand delivery

(b) Any communication sent by either of the parties to the Exchange shall be made in any one or more of the following ways:

- (i) by post (ordinary or registered or speed) or Courier service
- (ii) by telegram
- (iii) by fax
- (iv) by hand delivery
- (v) by electronic mail

**14.22** The following documents shall be preserved by the Exchange for the time periods as mentioned hereunder:

- a) The original arbitration award along with acknowledgements shall be preserved permanently.
- b) In case an appeal for setting aside the award is not filed, then apart from the original award, all the other records pertaining to arbitration shall be preserved for 5 years from the date of award.
- c) In case an appeal for setting aside the award is filed, then apart from the original award, all the other records pertaining to arbitration shall be preserved for 5 years from the date of final disposal by court.

**14.23** The destruction of records by the Exchange shall be subject to the previous order, in writing of the relevant authority and the details of the destruction shall be entered in a register wherein the brief particulars of the records destroyed along with the certification regarding the date and mode of destruction shall be mentioned.

**Form No. I**  
**Arbitration Application**  
**[Regulation 14.9 (a)]**

Name of Applicant:  
Status: Trading Member/Participant of the Exchange/Constituent  
Office/Residential address of Applicant:  
Tel: Office /Residence:  
Fax: Office/Residence:  
Mobile No.:  
Email address:

To,  
Arbitration Department,  
Metropolitan Stock Exchange of India Limited,  
Mumbai, Delhi, Calcutta, Chennai (Strike out whichever is not applicable)

Sirs,  
I/We, am/are a Trading Member/ participant of the Exchange/Constituent of \_\_\_\* (please mention name of Trading Member).

I/We hereby apply for adjudication by arbitration of the claim, difference and dispute within the meaning of the Bye laws, Rules and Regulations of the Exchange which has arisen and is now pending between me and the following person.

Name:  
Status: Trading Member of the Exchange/Constituent\*  
Office/Residential Address:  
Tel: Office/Residence:  
Fax: Office/Residence:.  
Email address:

The amount of claim in the matter is:

(a) Rs. (in words) (Rupees only)

<sup>145</sup>[(b) Name of the Contract traded

(c) Market value of the Derivatives Contract as on the date of application]

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<sup>145</sup> Substituted with effect from May 2, 2011



Please find enclosed a Cheque/Pay order/ Demand Draft No. dated issued by bank in favour of Metropolitan Stock Exchange of India Limited for an amount of Rs. (Rupees only) payable at Mumbai/Delhi/Calcutta/Chennai towards Arbitration deposit for defraying costs and expenses of arbitration.

I/We state that I do not want a hearing from the arbitrator/ I do want a hearing from the arbitrator\*

Signature of Applicant

Date:

Place:

Note:

- 1) The Applicant shall put his/her signature on all the pages of the documents submitted alongwith this form and if the Applicant is a firm/company, the rubber stamp of the firm/company shall be affixed on all the pages.

If the Applicant is a firm/company then the authorised representative of the Applicant has to submit the authority letter/board resolution as the case may be alongwith this form.

- 2) In case of Mumbai seven names are to be suggested from the list of persons eligible to act as arbitrators. In case of Delhi, Calcutta and Chennai, five names are to be suggested from the list of persons eligible to act as arbitrators in the respective regions.

\* Strike out whichever is not relevant.

**Form No. II**  
**[Regulation 14.9 (b) and 14.9 (e)]**

In the matter of an Arbitration under the Bye laws, Rules and Regulations of Metropolitan Stock  
Exchange of India Limited

**Arbitration Matter No. \_\_\_\_\_ / 20\_\_**

**BETWEEN**

M/s  
Mr./Mrs./Ms. ... **Applicant (TM/C)\***  
Office/Residential Address:  
Tel: Office/Residence:  
Fax: Office/Residence:  
Mobile/Pager No.  
Email address:

**AND**

M/s  
Mr./Mrs./Ms. ... **Respondent (TM/C)\***  
Office/Residential Address:  
Tel: Office/Residence:  
Fax: Office/Residence:  
Mobile/Pager No.  
Email address:

To,  
Arbitration Department,  
Metropolitan Stock Exchange of India Limited,  
Mumbai, Delhi, Calcutta, Chennai (Strike out whichever is not applicable)

Sirs,

In the said matter, the names of persons chosen by me/us as arbitrators from the list of eligible persons to act as arbitrators are given below in descending order of preference:

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.

Yours faithfully,

Signature

Date:

Place:

**Note:** In case of Mumbai seven names are to be suggested from the list of persons eligible to act as arbitrators. In case of Delhi, Calcutta and Chennai, five names are to be suggested from the list of persons eligible to act as arbitrators in the respective regions.

\* 'TM' stands for "Trading Member" and 'C' stands for "Constituent"

\* Strike out whichever is not relevant.

**Form No. III**

**Reply by the Respondent to Arbitration Application**  
**[Regulation 14.9 (g)]**

In the matter of an Arbitration under the Bye laws, Rules and Regulations of Metropolitan Stock Exchange of India Limited

**Arbitration Matter No. \_\_\_\_/20\_\_**

**BETWEEN**

M/s  
Mr./Mrs./Ms. ... **Applicant (TM/C)\***  
Office/Residential Address:  
Tel: Office/Residence:  
Fax: Office/Residence:  
Mobile/Pager No.  
Email address:

**AND**

M/s  
Mr./Mrs./Ms. ... **Respondent (TM/C)\***  
Office/Residential Address  
Tel: Office/Residence:  
Fax: Office/Residence:  
Mobile/Pager No.  
Email address:

To,  
Arbitration Department,  
Metropolitan Stock Exchange of India Limited,  
Mumbai, Delhi, Calcutta, Chennai (Strike out whichever is not applicable)

Sirs,

In connection with the application for arbitration submitted by Mr./Mrs./Ms./M/s the Applicant above named, I/We enclose herewith three copies of my/our reply along with the enclosures as specified in regulation.

Please also find enclosed a Cheque/Pay order/ Demand Draft No. dated issued by bank in favour of Metropolitan Stock Exchange of India Limited for an amount of Rs. (Rupees only) payable at Mumbai/ Delhi/ Calcutta/ Chennai towards Arbitration deposit for defraying costs and expenses of arbitration.

I/We state that I do not want a hearing from the arbitrator/ I do want a hearing from the arbitrator.\*

Yours faithfully

Signature of Respondent/s

Date:

Place:

**Note:** The Respondent shall put his/her signature on all the pages of the documents submitted alongwith this form and if the Respondent is a firm/company, the rubber stamp of the firm/company shall be affixed on all the pages.

If the Respondent is a firm/company then the authorised representative of the Respondent has to submit the authority letter/board resolution as the case may be alongwith this form.

\* 'TM' stands for "Trading Member" and 'C' stands for "Constituent".

\* Strike out whichever is not relevant.

## <sup>146</sup>**[14A. APPELLATE ARBITRATION**

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<sup>146</sup> Chapter 14A and relevant Forms inserted with effect from December 30, 2011

#### **14A.1 DEFINITIONS**

- (a) 'Appellant' means the person who files an appeal under this Chapter.
- (b) 'Respondent' means the person against whom the Appellant lodges an appeal, whether or not there is a claim against such person.

#### **14A.2 SEAT OF APPELLATE ARBITRATION**

The Appellate Arbitration shall be conducted at the same Regional Arbitration Center (RAC) where the award under challenge was passed, unless otherwise specified by the relevant authority.

#### **14A.3 TIME FOR PREFERRING APPEAL**

The Memorandum of Appeal shall be submitted to the Exchange by the appellant or his authorised representative within one month from the date of receipt of the Arbitral Award.

#### **14A.4 PROCEDURE FOR APPOINTMENT OF ARBITRATORS**

- (a) The Appellant and the Respondent shall submit to the Exchange in the order of descending preference, names of persons from amongst the list of eligible persons specified by the Exchange for the respective seats of appellate arbitration other than those Arbitrator(s) who passed the Award under dispute. The number of persons to be so submitted by the Appellant and the Respondent shall be as may be specified by the Relevant Authority. Such names shall be submitted in Form B by the Appellant along with Form A. The Respondent shall submit the names in Form B within seven days of the receipt of Form A from the Exchange. Upon receiving the Form B from the Appellant as well as the Respondent, the Exchange shall as provided for herein, identify the person/s who shall act as the arbitrators.
- (b) The Exchange shall identify the panel of arbitrators to whom the Memorandum of Appeal will be referred in the following manner:
  - (i) The Exchange shall identify three most common arbitrators in the order of preference given by the Appellant and the Respondent.
  - (ii) If no common arbitrator is identifiable or only one or two common arbitrators are identifiable, the first, the second and/or the third arbitrator as the case may be shall be selected by the Relevant Authority from the list of eligible persons excluding the persons selected by the Appellant and the Respondent. If after excluding the persons selected by the Appellant and the Respondent no eligible person is available to act as arbitrator or if the available person refuses or fails to act as arbitrator, then the Relevant Authority may select an arbitrator from the list submitted by either the Appellant or Respondent.
  - (iii) In the event of the failure of Appellant and the Respondent to submit any names of eligible persons to act as arbitrators the Relevant Authority shall select the panel of arbitrators from the lists of persons eligible to act as arbitrators.

- (iv) The panel of arbitrators so appointed shall select one among themselves to act as a presiding arbitrator within 7 days of receipt of intimation from the Exchange appointing them to act as an arbitrator. In case of failure or lack of consensus among the panel to select a presiding arbitrator, the Relevant Authority shall select the presiding arbitrator.
- (c) If the Appellant refuses to choose the persons eligible to act as arbitrators or fails to submit Form B, and the Respondent submits Form B, then the Relevant Authority shall select an arbitrator from the balance list of eligible persons excluding, the persons selected by the Respondent. If after excluding the persons selected by the Respondent no eligible person is available to act as arbitrator or if the available person refuses or fails to act as arbitrator, then the Relevant Authority may select an arbitrator from the list submitted by the Respondent.
- (d) If the Appellant submits Form B and the Respondent fails to submit the same, then Relevant Authority shall select an arbitrator from the balance lists of eligible persons excluding the persons selected by the Appellant.
- (e) If the arbitrator chosen as per the above procedure is not able to take up the matter for whatsoever reasons and/or not available for an extended period, then the Relevant Authority shall select an arbitrator from the remaining names on the list of eligible persons excluding the persons selected by the Appellant and/or the Respondent. If after excluding the persons selected by the Appellant and the Respondent no eligible person is available to act as arbitrator or if the available person refuses or fails to act as arbitrator, then the Relevant Authority may select an arbitrator from the list submitted by either the Appellant or Respondent.

#### **14A.5 APPELLATE ARBITRATION FEES**

- (a) The Appellant shall bear the cost of Appellate Arbitration. The appellant shall pay to the Exchange along with the Memorandum of Appeal such fees as may be prescribed by the Relevant Authority from time to time, not exceeding Rs. 30,000/- (exclusive of statutory dues such as, stamp duty, service tax, etc).
- (b) Notwithstanding anything contained above, if the awarded amount appealed against is less than or equal to Rs.10 lakhs, then the Appellant (client/ constituent) shall not be required to pay appellate fees to the Exchange. In such cases, the costs incurred for conducting the appellate arbitration proceedings shall be borne by the Exchange.

#### **14A.6 PROCEDURE FOR APPELLATE ARBITRATION**

- (a) The Appellant shall submit to the Exchange five copies of Memorandum of Appeal, and the following enclosures:
  - (i) Five copies of the Arbitration Award.
  - (ii) A cheque/ pay order/demand draft for the fees payable in drawn favour of Metropolitan Stock Exchange of India Limited.
  - (iii) Form B containing list of names of the persons eligible to act as arbitrators.
- (b) If any deficiency/defect in the Form A is found, the Exchange shall call upon the Appellant to rectify the deficiency/defect and the Appellant shall rectify the deficiency/defect within 7 days of receipt of intimation from the Exchange. If the Appellant fails to rectify the deficiency/defect within the prescribed period, the Exchange shall return the deficient/defective Form A to the Appellant. However, the Appellant shall have the right to file a revised Form A which shall be considered as a fresh Form A for all purposes including limitation and dealt with accordingly.
- (c) Upon receipt of Form A, the Exchange shall forward a copy of the same and related documents to the Respondent.
- (d) The Respondent shall submit Form B to the Exchange within 7 days from the date of receipt of Form A and related documents. If the Respondent fails to submit Form B within the time period prescribed by the Exchange, then the arbitrator shall be appointed in the manner as specified in Regulation 14A.4.
- (e) Upon receiving Form B from the Respondent(s), the arbitrator shall be appointed as per the procedure prescribed in Regulation 14A.4. In the event there is more than one Respondent, being legal heirs of a deceased Constituent or family members, then such legal heirs shall authorise one of them to represent the deceased Constituent in the appellate arbitration proceedings including signing of Form B and such other documents as may be required.
- (f) The Respondent(s) shall within 10 days from the date of receipt of Form A from the Exchange, submit to the Exchange five copies of Statement of Reply along with the related documents as mentioned in Form C.
- (g) If the Respondent fails to submit Statement of Reply within the prescribed time, then the appellate arbitral tribunal may proceed with the arbitral proceedings and make the award ex parte.
- (h) Upon receiving Statement of Reply as prescribed in Form C from the Respondent the Exchange shall forward one copy to the Appellant.
- (i) The time period to file any pleading referred to herein may be extended for such further periods as may be decided by the Relevant Authority in consultation with the arbitrator depending on the circumstances of the matter.



#### **14A.7 VACANCY IN THE OFFICE OF THE ARBITRATORS**

If one or more of the arbitrator's office falls vacant, in the panel of appellate arbitral tribunal after the appointment thereto, the Exchange shall adopt the procedure specified in Regulation 14.6 and fill up the vacancy within 7 days of such vacancy. For this purpose, the list of names of eligible persons in Form B already submitted by the Appellant and by the Respondent shall be considered.

#### **14A.8 NOTICE OF HEARING**

Unless otherwise specified, the Exchange shall in consultation with the panel of arbitrators determine the date, the time and place of the first hearing. Notice for the first hearing shall be given at least 7 days in advance, unless the parties shall, by their mutual consent, waive the notice. The arbitral tribunal shall determine the date, the time and place of subsequent hearings of which a notice shall be given by the Exchange to the parties concerned.

#### **14A.9 ADJOURNMENT OF HEARING**

If any party to the appeal wants to make an application for adjournment of hearing by the arbitral tribunal, the party shall make an application in writing giving reasons for seeking adjournment to the Exchange sufficiently in advance to enable the Exchange to forward such request to the arbitrators. The arbitrators at their discretion may grant the adjournment in exceptional cases, for reasons, to be recorded in writing.

#### **14A.10 APPELLATE ARBITRAL PROCEEDING**

In the appellate arbitral proceeding a Constituent may appear through a power of attorney holder and the trading member may appear through his authorised representative;

Provided that the trading member may appear through a legal practitioner only if the Constituent is represented through a legal practitioner.

Explanation: For the purpose of this Regulation, 'authorised representative' shall mean as under-

- (a) If the trading member is an individual, an employee or authorised person of the trading member as defined in these Regulations.
- (b) If the trading member is a partnership firm, any partner or employee or authorised person of the trading member as defined under these Regulations.
- (c) If the trading member is a Company, any director or employee or authorized person of the trading member as defined under these Regulations.

#### **14A.11 APPELLATE ARBITRAL AWARD ON AGREED TERMS**

If after the appointment of panel of arbitrators, the parties settle the dispute, then the Arbitral Tribunal shall record the settlement in the form of an appellate arbitral award on agreed terms.

#### **14A.12 MAKING OF APPELLATE ARBITRAL AWARD**

- (a) The award of the Appellate Tribunal shall be in writing and made in three originals duly dated and signed by the panel of arbitrators (by all the three arbitrators), and shall be made within the time mentioned in the Bye-laws.
- (b) The panel of arbitrators shall file all the three original awards with the Exchange, which shall arrange to send one original each to the parties to the dispute and the stamped original award shall be retained by the Exchange.

#### **14A.13 INTEREST**

- (a) The arbitral tribunal may include in the sum for which the award is made interest at such rate on such sum and for such period as the arbitrators deem reasonable.
- (b) A sum directed to be paid by an award shall, unless the award otherwise directs, carry interest at the rate of eighteen per cent per annum from the date of the award to the date of payment.

#### **14A.14 ARBITRATION FEES AND CHARGES, COSTS, ETC.**

- (a) The fees and expenses payable to arbitrators shall be as determined by the Relevant Authority from time to time.
- (b) The costs, if any, to be awarded to either of the party in addition to the fees that is paid by the parties for conducting the appellate arbitration shall be decided by the arbitral tribunal.
- (c) Unless the arbitrator directs otherwise, each party shall bear their own expenses of traveling and other incidental expenses incurred.

#### **14A.15 APPLICABILITY OF CHAPTER 14**

Except where specific provision is made in these Regulations, the provisions of Regulations 14.6, 14.7A and 14.20 to 14.23 of Chapter 14 of the Regulations shall, so far as may be, apply to appellate arbitrators, appellate arbitration proceedings and appellate arbitral award.

**Form A**  
**Memorandum of Appeal**

In the matter of appeal against the award made on \_\_\_\_\_  
by \_\_\_\_\_

Under the Rules, Bye-laws and Regulations of Metropolitan Stock Exchange of India Limited

Appellant ..... (Original Appl/Resp)

Versus

Respondent ..... (Original Appl/Resp)

**1. Particulars of appellant:**

- (i) Name of appellant
- (ii) Address of registered office/place of residence of the appellant
- (iii) Address of service of all notices
- (iv) Telephone, fax number and email address, if any.

**2. Particulars of respondent(s)**

- (i) Name of respondent(s)
- (ii) Office address/place of residence of the respondent(s)
- (iii) Telephone, fax number and email address, if any.

**3. Jurisdiction**

The appellant declares that the matter of appeal falls within the jurisdiction of the Appellate Tribunal.

**4. Limitation**

The appellant further declares that the appeal is within limitation as prescribed by the Rules, Bye-laws and Regulations of the Exchange.

**5. The grounds of appeal**

(Give here concise statement of facts and grounds of appeal against the specified order in a chronological order, each paragraph containing as neatly as possible as separate issue, fact or otherwise)

**6. Relief(s) sought**

In view of the facts mentioned in para 5 above, the appellant to specify the relief(s) sought.

**7. Matter not pending with any other court etc.**

The appellant further declares that the matter regarding which this appeal has been made is not pending before any court of law or any other authority.

**8. Fees**

The requisite \_\_\_\_\_ fees prescribed by the Exchange have been paid.

**9. Details of Index**

An index containing the details of the documents to be relied upon is enclosed.

**10. List of enclosures**

(Signature of appellant/Authorised Representative)

**Verification**

I, \_\_\_\_\_ son/daughter/wife of Shri \_\_\_\_\_ being the appellant/ Authorised Representative of \_\_\_\_\_ do verify that whatever stated hereinabove is true to my personal knowledge and belief and that I have not suppressed any material facts.

(Signature of appellant/Authorised Representative)

Place:

Date:

To,  
Arbitration Department  
Metropolitan Stock Exchange of India Limited

\_\_\_\_\_  
\_\_\_\_\_

**Note:** The appellant shall put his/her signature on all the pages of the documents submitted along with this memorandum of appeal and if the appellant is a firm/company, the rubber stamp of the firm/company shall be affixed on all the pages.

If the appellant is a firm/company then the authorised representative of the Respondent has to submit the authority letter/board resolution as the case may be along with this memorandum of appeal.

**Form B**  
**Intimation of preference of arbitrators**

In the matter of appeal against the award made on \_\_\_\_\_  
by \_\_\_\_\_

Under the Rules, Bye-laws and Regulations of Metropolitan Stock Exchange of India Limited

Appellant ..... (Original Appl/Resp)

Versus

Respondent ..... (Original Appl/Resp)

To,  
Arbitration Department,  
Metropolitan Stock Exchange of India Limited,  
Mumbai, Delhi, Calcutta, Chennai (Strike out which ever is not applicable)

Sirs,

In the said matter, the names of persons chosen by me/us as arbitrators from the list of eligible persons to act as arbitrators are given below in descending order of preference:

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.

Yours faithfully,

Signature

Date:

Place:

**Note:** In case of Mumbai seven names are to be suggested from the list of persons eligible to act as arbitrators. In case of Delhi, Kolkata and Chennai, five names are to be suggested from the list of persons eligible to act as arbitrators in the respective regions.

**Form No. C**  
**Reply by the Respondent**

In the matter of an Arbitration

Under the Rules, Bye-laws and Regulations of Metropolitan Stock Exchange of India Limited

In the matter of appeal against the order made on \_\_\_\_\_

By \_\_\_\_\_

Appellant ..... (Original Appl/Resp)

Versus

Respondent ..... (Original Appl/Resp)

**1. Particulars of appellant**

**2. Particulars of respondent(s)**

- (i) Name of respondent(s)
- (ii) Office address of the respondent(s)
- (iii) Address of service of all notices
- (iv) Telephone, fax number and email address, if any.

**3. Grounds of objection**

The Respondent to specify the grounds of objection to the appeal.

**4. Relief sought**

In view of the objections raised, respondent to specify the relief(s) sought.

**5. Details of Index**

An index containing the details of the documents to be relied upon is enclosed.

**6. List of enclosures**

(Signature of Respondent/Authorised Representative)

### Verification

I, \_\_\_\_\_ son/daughter/wife of Shri \_\_\_\_\_ being the Respondent/ Authorised Representative of \_\_\_\_\_ do verify that whatever stated hereinabove is true to my personal knowledge and belief and that I have not suppressed any material facts.

(Signature of Respondent/Authorised Representative)

Place:

Date:

To,  
Arbitration Department  
Metropolitan Stock Exchange of India Limited

\_\_\_\_\_  
\_\_\_\_\_

Date:

Place:

**Note:** The Respondent shall put his/her signature on all the pages of the documents submitted alongwith this form and if the Respondent is a firm/company, the rubber stamp of the firm/company shall be affixed on all the pages.

If the Respondent is a firm/company then the authorised representative of the Respondent has to submit the authority letter/board resolution as the case may be alongwith this form.]

## 15. RECORDS, ANNUAL ACCOUNTS & AUDIT

### 15.1 RECORDS

- 15.1.1** Every Trading Member shall comply with all relevant statutory Acts, including Securities Contracts (Regulation) Act, 1956 and Rules framed thereunder, and Securities Exchange Board of India Act, 1992 and Regulations and guidelines framed thereunder, and the requirements of and under any notifications, directives and guidelines issued by the Central Government and any statutory body or local authority or any body or authority acting under the authority or direction of the Central Government relating to maintenance of accounts and records.
- 15.1.2** In additions to the requirements as per regulation 15.1.1 above, every Trading Member of the CD Segment of the Exchange shall comply with the following requirements and such other requirements as the CD Segment of the Exchange may from time to time notify on this behalf relating to books of accounts, records and documents in respect of his membership and trading on the CD Segment of the Exchange.
- 15.1.3** Where a Trading Member holds membership of any other recognized stock exchange(s), then such a Trading Member shall maintain separate books of accounts, records and documents for trades executed on each recognised stock exchange.
- 15.1.4** Every Trading Member of the CD Segment of the Exchange shall maintain the following records relating to its business for a period of five years:-
- (a) Order confirmation slips, order modification slips as obtained from the trading system of the CD Segment of the Exchange.
  - (b) Trade confirmation slips and exercise notice records as obtained from the trading system of the CD Segment of the Exchange.
  - (c) Statements of obligations received from the Clearing Corporation.
  - (d) Record of all statements received from the settling agencies and record of all correspondence with them.
  - (e) Order Book of Constituents reflecting the following:
    - (i) identity of person receiving the order
    - (ii) date and time of order received
    - (iii) name of the person placing the order
    - (iv) name of Constituent, description and value of <sup>147</sup>[Derivatives Contracts] to be bought and sold
    - (v) terms and conditions of the order stating particularly price/rate limit or price / rate related instructions and time limit on the order (if any).
    - (vi) the ATS order number as per the trading system of the CD Segment of the Exchange or trading member order number as the case may be.

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<sup>147</sup> Substituted with effect from May 2, 2011



- (vii) any modification or cancellation thereof including cases when it is cancelled by the system or cancelled due to maturity of the contract.
  - (viii) if executed, the price/rate at which it is executed and to the extent feasible, the time of execution or cancellation and trade number as per the trading system of the CD Segment of the Exchange .
  - (ix) reference number of the contract issued in case of executed orders.
  - (x) orders entered pursuant to the exercise of discretionary power shall be so designated.
  - (xi) entries of orders shall be serially numbered.
  - (xii) details of upfront deposits collected by member for each constituent describing the form and value, mentioning appropriate haircuts.]
  - (xiii) Risk disclosure documents executed by each constituent approved to trade in <sup>148</sup>[Currency Derivatives Contract/Interest rate Derivatives Contract]
  - (xiv) Margin call made and met.
- (f) Order book in respect of Trading Member's own orders
  - (g) Every Trading Member shall preserve the following reports produced from the trading system for a period of five years.
    - (i) Activity Log
    - (ii) Orders Cancelled Today
    - (iii) New Orders Today
    - (iv) Outstanding Orders Today
    - (v) Trades done Today
  - (h) Copies of all instructions obtained in writing from constituents including Participants for an order placement, order modification, order cancellation, trade cancellation, etc.
  - (i) Records in respect of interest received on securities of constituents, monies borrowed and loaned including monies received.
  - (j) Records in respect of brokerage collected separately from constituents.
  - (k) A Register of transaction (or other records of original entry) executed by Trading Members on behalf of Constituents containing an itemised daily record of all purchases and sales of securities, showing for each such transaction effected, contract specifications, value of <sup>149</sup>[Derivatives Contracts], expiration dates of <sup>150</sup>[Derivatives Contracts], rates both gross and net of brokerage and name of constituents.
  - (l) Register of transactions for trades executed by the Trading Member on his own behalf containing such particulars as may be specified by the CD Segment of the Exchange
  - (m) Every Trading Member shall keep such records and books of accounts, as may be necessary, to distinguish constituent's contracts from its own contracts. These should be maintained on a Pro & Client basis where Pro stands for Proprietary (indicates trade carried on his own account) and Client stands for trade carried out for constituents. This is necessary to determine the amounts of brokerage and margins to be recovered from the constituents. Such records for constituent's contracts

<sup>148</sup> Substituted with effect from May 2, 2011

<sup>149</sup> Substituted with effect from May 2, 2011

<sup>150</sup> Substituted with effect from May 2, 2011

shall inter-alia, provide for the following:

- (i) Contracts held in custody by the Trading Member as security deposit/margin, etc. Proper authorisation from constituent for the same shall be obtained by Trading Member;
- (ii) Fully paid for constituent's securities registered in the name of Trading Member, if any, towards margin requirements, etc.
- (iii) Trading members should maintain records in respect of charges collected from constituents.
- (iv) Record of the Long and Short position of the Trading Member as well as that of each of his constituents.

- (n) Margin book for constituents and for Trading Members' own account trades containing the particulars relating to the amount of margins deposited by each constituent and the amount of margin released to each constituent.

**15.1.5** Trading Members shall maintain and preserve for a period of seven years a mapping of client IDs used at the time of order entry in the trading system with those unique client IDs along with client name, address and other particulars given in the Know your Client form.

<sup>151</sup>[**15.1.15A** The Trading Member shall display at each branch office, additional information such as particulars of Authorised Person in charge of that branch, time lines for dealing through Authorised Person, etc., as may be specified by the Exchange.]

**15.1.6.1** (a) Every Trading Member shall keep for a period of three years such books of accounts, as shall be necessary, to show and distinguish in connection with his business as a Trading Member and also to comply with Rule 15 of Securities Contracts (Regulation) Rules, 1957 :

- (i) The moneys received from or on account of and moneys paid to or on account of each of his constituents; and,
- (ii) The moneys received and the moneys paid on Trading Member's own account.

(b) It shall be compulsory for all Trading Members to keep the money of the constituents in a separate account and their own money in a separate account. No payment for transaction in which the Trading Member is taking a position as a principal shall be allowed to be made from the constituent's account.

(c) Every Trading Member shall send a complete 'Statement of Accounts' for both funds and securities in respect of each of its clients in such periodicity not exceeding three months (Calendar quarter) within a month of the expiry of the said period. The Statement shall also state that the client shall report errors, if any, in the Statement within 30 days of receipt thereof to the Trading Member.

**15.1.6.2** The transfer from constituent's account to Trading Member's account shall be allowed under

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<sup>151</sup> Inserted with effect from February 24, 2010

circumstances enumerated below:

**(i) Obligation to pay money into “Constituents account”:**

Every Trading Member who holds or receives money on account of a constituent shall forthwith pay such money to current or deposit account at bank to be kept in the name of the Member in the title of which the word “Constituents” shall appear (hereinafter referred to as “Constituents Account”). Trading Member may keep one consolidated constituents account for all the constituents or accounts in the name of each constituent, as he thinks fit; provided that when a Trading Member receives a cheque or draft representing in part money belonging to the constituent and in part money due to the Trading Member, he shall pay the whole of such cheque or draft into the constituents account and effect subsequent transfer as laid down below in para (iii.b).

**(ii) Money to be paid into “constituents account”:** No money shall be paid into constituents account other than -

- a. money held or received on account of constituents;
- b. such moneys belonging to the Trading Member as may be necessary for the purpose of opening or maintaining the account;
- c. money for replacement of any sum which may by mistake or accident have been drawn from the account;
- d. a cheque or draft received by the Trading Member representing in part money belonging to the constituent and in part money due to the Trading Member.

**(iii) Money to be withdrawn from “constituents account”:** No money shall be drawn from constituents account other than -

- a. money properly required for payment to or on behalf of constituents for or towards payment of a debt due to the Member from constituents or money drawn on constituent’s authority, or money in respect of which there is a liability of constituents to the Trading Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for such each constituent;
- b. such money belonging to the Trading Member as may have been paid into the constituent account under para (ii.b) and (ii.d) above;
- c. money which may by mistake or accident have been paid into such account.

**(iv) Right to lien, set-off etc., not affected:**

Nothing in this para 1 shall deprive a Trading Member of any recourse or right, whether by way of lien, setoff, counter-claim charge(s) or otherwise against moneys standing to the credit of constituents account.

- 15.1.7** Every Trading Member shall maintain permanently copies of agreements executed with each of its constituent in accordance with the CD Segment of the Exchange requirements.
- 15.1.8** Every Trading Member shall maintain permanently copies of agreements and documents executed with each of the settling agencies or banks.
- 15.1.9** Every Trading Member shall maintain records of all relevant particulars of persons which are approved as approved users by the CD Segment of the Exchange.
- 15.1.10** Every Trading Member shall maintain originals of all communications received and copies of all communications sent by such Trading Member (including interoffice memo and communications) relating to its business as such.
- 15.1.11** Every Trading Member shall maintain all guarantees of accounts and all powers of attorney and other evidence of the granting of any discretionary authority given in respect of any account and copies of resolutions empowering an agent to act on behalf of a Trading Member.
- 15.1.12** Every Trading Member shall maintain all written agreements and documents (or copies thereof) entered into by that Trading Member relating to its business as such, including agreements with respect to any account.
- 15.1.13** Every Trading Member shall preserve for a period of not less than five years after the closing of any constituent's account any records which relate to the terms and conditions with respect to the opening and maintenance of such account date of entering into agreement with the constituent, date of modification thereof date of termination and representatives of such constituent who signed in each case.
- 15.1.14** A Trading Member shall intimate to the CD Segment of the Exchange the place where these records are kept and available for audit/inspection.
- 15.1.15** The above requirements relating to maintenance of records shall apply not only to records of the member's principal office but also to those of any branch office and to any nominee company owned or controlled by a Trading Member for the purpose of conducting the business of the Trading Member.
- <sup>152</sup>**15.1.15A** The Trading Member shall display at each branch office, additional information such as particulars of Authorised Person in charge of that branch, time lines for dealing through Authorised Person, etc., as may be specified by the Exchange.]
- 15.1.16** Each Trading Member shall keep and preserve a record of all written complaints of its constituents showing the reference number of constituent, date, constituent's name, particulars of the complaints, action taken by the Trading Member, if the matter is referred to arbitration to the CD Segment of the Exchange then the particulars thereof and record

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<sup>152</sup> Inserted with effect from February 24, 2010

of resolution of the complaint by the member.

**15.1.17** Every Trading Member shall maintain details of securities which are the property of a Trading Member showing with whom they are deposited and if held otherwise than by the member, whether they have been lodged as collateral security for loans or advances.

**15.1.18** Every Trading Member shall keep copies/duplicates of Contract Notes issued by the Member and details of any statements which are required by these Rules to appear on Contract Notes.

**15.1.19** For the purpose of Regulation Nos. 15.1.4, 15.1.6.1 and 15.1.13, the term of 5 years or 3 years, as the case may be, shall be reckoned from the date of closure of account or termination of contract of a Constituent or after the final settlement or adjudication of the dispute where there is a dispute between the Trading Member and the Constituent.

<sup>153</sup>**[15.1.20** Notwithstanding anything contained hereinabove where copies of any documents with a Trading Member are taken by the CBI, any Police Department or any other enforcement agency during the course of any investigation the relevant original documents shall be preserved by the Trading Member in the physical and electronic form till the trial or other enforcement proceeding is concluded or the case is closed.]

## **15.2 ANNUAL ACCOUNTS AND AUDIT**

**15.2.1.** Each Trading Member shall prepare annual accounts for each financial year ending on 31st March or such other date as advised to the CD Segment of the Exchange.

**15.2.2.** The Assets and Liabilities of the Trading Member's business shall be brought into account in the balance sheet at such amounts and shall be classified and described therein in such manner that the balance sheet gives a true and fair view of the state of affairs of such business as at the date to which it is made up.

**15.2.3.** Each Trading Member shall furnish to the CD Segment of the Exchange, its audited financial statement and such report shall be furnished not later than six months after the end of the Trading Member's financial year, provided that when the CD Segment of the Exchange is satisfied that circumstances warrant an extension of time necessary to furnish such report, it may grant an extension of such time as it may deem fit.

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<sup>153</sup> Substituted with effect from May 2, 2011

## 16. INSPECTION

### 16.1 INSPECTION AUTHORITY

<sup>154</sup>**16.1.1** Where it appears to the CD Segment of the Exchange so to do, it may appoint one or more persons as inspecting authority to undertake inspection of books of accounts, other records and documents of the Trading Members, Authorised Person(s) and Constituents for any of the purposes specified in regulation 16.1.2]

**16.1.2** The purposes referred to in regulation 16.1.1. shall be as follows, namely :

- (a) to ensure that the specified records, books of accounts and other books are being maintained in the manner required;
- (b) to ensure that the provisions of SEBI Act, Rules and Regulations thereunder are being complied with;
- (c) to ensure that provisions of the Securities contracts (Regulation) Act and the Securities contracts (Regulation) Rules are being complied with;
- (d) to ensure that various provisions of MSEI Bye-laws, Rules and Regulations and any directions or instructions issued thereunder are being complied with;
- <sup>155</sup>[(da) to ensure efficacy of the investor grievance redressal mechanism and verify discharge of various obligations towards clients]
- (e) to investigate into the complaints received from investors, other members of the CD Segment of the Exchange or any other person on any matter having a bearing on the activities of the Trading Member;
- (f) to investigate suo-moto, for any reason where circumstances so warrant an inspection, into the affairs of the Trading Member;
- (g) to examine whether any notices, circulars, instructions or orders issued by the CD Segment of the Exchange from time to time relating to trading and other activities of Trading Members are being complied with;
- (h) to comply with any of the directives issued in this behalf by any regulating authority including Government of India.
- <sup>156</sup>[(i) to verify whether Authorised Person(s) of the Trading Member comply with the requirements specified by SEBI and/or the Exchange.]

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<sup>154</sup> Substituted with effect from February 24, 2010

<sup>155</sup> Inserted with effect from June 30, 2011

<sup>156</sup> Inserted with effect from February 24, 2010

## **16.2 NOTICE**

**16.2.1** Before undertaking any inspection under regulation 16.1.1, the CD Segment of the Exchange shall give a reasonable notice to the Trading Member for that purpose.

**16.2.2** Notwithstanding anything contained in sub regulation 16.2.1, where the CD Segment of the Exchange is of the opinion that no such notice should be given, it may direct in writing that the inspection of the affairs of the Trading Member be taken up without such notice.

**16.2.3** The inspecting authority appointed by the CD Segment of the Exchange shall undertake inspection and the Trading Member, against whom an inspection is being carried out, shall be bound to discharge his obligations as provided under regulation 16.3.

## **16.3 OBLIGATIONS OF A TRADING MEMBER ON INSPECTION**

**16.3.1** It shall be the duty of every director, officer and employee of the Trading Member, who is being inspected, to produce to the inspecting authority such books, records and other documents in his custody or control or arrange to produce such books, records and other documents which are in any other person's custody or control and furnish such statements and information within such time as the said inspection authority may require.

**16.3.2** The Trading Member shall allow the inspecting authority to have reasonable access to the premises occupied by him or by any other person on his behalf and also extend reasonable facilities for examining any books, records, documents and computerised data in his possession or any other person and also provide copies of documents or other materials which in the opinion of the inspecting authority are relevant. Such copies or materials shall be retained by the Inspecting Authority as the property of the CD Segment of the Exchange.

**16.3.3** The inspecting authority, in the course of inspection shall be entitled to examine or record statements of any member, director, officer and employee of the Trading Member or of any associate of such Trading Member.

**16.3.4** It shall be the duty of every director, officer and employee of the Trading Member or where an associate is examined, such associate, to give to the inspecting authority all assistance in connection with the inspection which the Trading Member may be reasonably expected to give.

**16.3.5** The inspecting authority shall be entitled to examine the records relating to the Trading Member's financial affairs held with its bankers or any other agency which the inspecting authority may find relevant.

**16.3.6** The inspecting authority shall have access to the accounts and other records relating to the Trading Member or such access as authorised by the CD Segment of the exchange to the accounts and other records relating to any associate of the Trading Member as are within the power of the Trading Member to provide.

## **16.4 SUBMISSION OF REPORT**

**16.4.1** The inspecting authority shall submit an inspection report to the CD Segment of the Exchange, within such time as the CD Segment of the Exchange may specify in this regard.

**16.4.2** (a) The CD Segment of the Exchange shall after consideration of the Inspection Report, communicate the findings to the Trading Member to give him an opportunity of being heard before any action is taken by the CD Segment of the Exchange on the findings of the Inspecting Authority.

(b) On receipt of the explanation, if any, from the Trading Member the CD Segment of the Exchange may call upon Trading Member to take such measures as the CD Segment of the Exchange may deem fit in the public interest.

(c) Notwithstanding anything contained in sub regulation 16.4.2 (a), where the CD Segment of the Exchange is of the opinion that no such hearing should be provided in certain circumstances, it may take action forthwith without giving the Trading Member any opportunity of being heard.

**16.4.3** The CD Segment of the Exchange may, at its discretion, require from the constituents of the Trading Member or any other persons dealing with the Trading Member submission of such documents, records, statement of accounts or any other information as it may deem fit.

## **16.5 Collection and Dissemination of Information**

**16.5.1** The Exchange may call upon the trading members to furnish such information and / or explanation with regard to any constituent, dealings, settlement, account and/or other related matters.

**16.5.2** The Stock Exchange shall maintain the details of the clients of the members in confidence and that it shall not disclose to any person /entity such details of the client as mentioned in the client registration form or any other information pertaining to the client except as required under the law or by any authority.

**16.5.3** Notwithstanding anything contained in any of the regulations, the Exchange may at its discretion disseminate to other stock exchanges or regulatory authorities or to the general public, any information including information relating to any trades, dealings, settlement of dealings, accounting, disciplinary action initiated/taken against trading Members and/or other matters relevant for enforcement or regulatory purposes.



## ANNEXURES

- **Annexures I to IV have been omitted with effect from May 2, 2011.**
- **Annexures V to VIII have been omitted with effect from January 9, 2012.**