

Department: Inspection	Segment: All
Circular No: MSE/INSP/11350/2022	Date : January 10, 2022

Subject: Clarification to the Rule 8(1)(f) and 8(3)(f) of Securities Contracts (Regulation) Rules, 1957

To All Trading Members,

The Rule 8(1)(f) and Rule 8(3)(f) of Securities Contracts (Regulation) Rules, 1957 (“SCRR”), requires that members of a Stock Exchange, except those provided under Rule 8 (8) of SCRR, shall not engage either as principal or employee, in any business, other than that of securities or commodity derivatives, except as a broker or agent, not involving any personal financial liability.

SEBI vide Circular No. SMD/Policy/Cir-6 dated May 07, 1997, had clarified, inter alia, that borrowing and lending of funds by a trading member in connection with or incidental to or consequential upon the securities business would not be disqualified under rule/s 8(1)(f) and 8(3)(f) of Securities Contract (Regulations) Rules, 1957.

It was further clarified vide SEBI Circular No. CIR/MIRSD/4/2015 dated September 29, 2015, that business in goods related to the underlying” and/ or “business in connection with or incidental to or consequential to trades in commodity derivatives”, by a member of a commodity derivatives exchange, would not be disqualified under Rule 8(1)(f) and Rule 8(3)(f) of the Securities Contract (Regulation) Rules, 1957.

In spite of aforesaid clarifications, it is observed that members are engaged in businesses other than securities or commodity derivatives business like entering loan arrangement with clients/entities, collecting money in the form of deposit or otherwise by offering fixed/guaranteed/periodic returns orally or in writing, extending corporate guarantees etc. which is in contravention of Rule 8(3)(f) of SCRR.

In view of the above, it is reiterated that Members are not permitted to engage in any business or activities or transactions, directly or indirectly, other than that of securities or commodity derivative except as a broker or agent not involving any personal financial liability.

In consultation with SEBI and other Stock Exchanges, the illustrative list of activities that are construed as non-compliance to Rule 8(1)(f) and 8(3)(f) of SCRR, if undertaken by a member, are provided as below.

1. Issuing Corporate Guarantees towards credit facilities availed by any entity, including group companies such as subsidiaries & associates etc. of the Member, not in connection with or incidental to or consequential upon securities / commodity derivatives business, as applicable.
2. Deposit pledged with the bank for overdraft facilities availed by any entity, including the group companies such as subsidiaries & associates etc. of the Member, not in connection with or incidental to or consequential upon securities / commodity derivatives business, as applicable.

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3. Borrowing of funds for the purpose of granting loans to its associates/ group companies or other entities.
4. Issuing commercial papers to raise money and funding it to any entity including group companies, not in connection with or incidental to or consequential upon securities business.
5. Engaging into activities/schemes of unauthorized collective investments/portfolio management, promising or indicating fixed/guaranteed/regular returns/capital protection.
6. Entering into any arrangement with clients to extend loans, financing the securities transactions directly/indirectly.
7. Any arrangement with registered clients to borrow funds/loans.
8. Pledging of client securities with Bank/NBFC for raising funds.
9. Entering into any arrangement for extending loans or giving deposits / advances to any entity, including group companies such as subsidiaries & associates etc., not in connection with or incidental to or consequential upon the securities/ commodity derivatives business
10. Investments made in group companies such as subsidiaries & associates etc., not in connection with or incidental to or consequential upon the securities/ commodity derivatives business. (Ex: Investment in companies engaged in other businesses such as NBFC, Real Estate etc.)
11. Entering into any arrangement/scheme for accepting securities from any client/ entity other than through approved Securities and Lending Borrowing mechanism into the own Demat account of the Stockbroker/director/shareholder/entity associated with Trading Member.
12. Entering into any arrangement/scheme and providing a platform to the clients for buying and selling of digital gold or any product not covered under the definition of securities as per SCRR.

The activities mentioned above are only illustrative in nature. On a case-to-case basis and based on the gravity of the violation, the relevant authority of the Exchange shall deal with such non-compliances after following the due process and providing the necessary opportunity to the trading members for clarification in the matter.

All Members are advised to take note of the above and strictly comply.

**For and on behalf of
Metropolitan Stock Exchange of India Limited**

**Mahendra Choudhari
AVP – Inspection and Membership Department**

In case of any query kindly contact Inspection Department on 6112 9000 or mail on compliancemsx@msei.in