



# **Metropolitan Stock Exchange of India Limited**

(Formerly known as MCX Stock Exchange Ltd.)

## **METROPOLITAN STOCK EXCHANGE (CAPITAL MARKET SEGMENT) REGULATIONS PART - I**

### **Registered Office**

4th Floor, Vibgyor Towers, Plot No. C - 62,  
Opp. Trident Hotel, Bandra Kurla Complex,  
Bandra (E), Mumbai - 400 098.

**METROPOLITAN STOCK EXCHANGE (CAPITAL MARKET SEGMENT) REGULATIONS  
PART - I**

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<sup>1</sup> Inserted w.e.f. April 15, 2014.

## **INTRODUCTION**

These Regulations shall be known as Metropolitan Stock Exchange (Capital Market Segment) Regulations Part I.

These Regulations shall be in addition to the provisions of the Securities Contracts (Regulation) Act, 1956, the Securities Contracts (Regulation) Rules, 1957, Securities and Exchange Board of India Act, 1992 and Rules and Byelaws of Metropolitan Stock Exchange of India Limited (MSEI), as may be applicable to Trading Members and Participants.

## **APPLICABILITY**

These Regulations shall be applicable to all Members and Participants to the extent specified herein, in the Capital Market Segment of Metropolitan Stock Exchange of India Limited. They shall be subject to jurisdiction of the Courts of Mumbai irrespective of the place of business of Members in India.

## 1. DEFINITIONS

### 1.1. Approved Office

“Approved office” means the registered office of a Trading Member including such premises or offices from which the Trading Member is allowed by the Exchange to trade on the Trading System and carry out back office activity.

### 1.2. 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 on the Trading System, and all other actions associated with the trading and settlement on the Trading System.

### 1.3. Approved User

“Approved User” is an individual appointed by a Trading Member in accordance with Chapter 2 of PART A of these Regulations.

### 1.4. 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 System of the Exchange, as an agent of the Trading Member.

### 1.5. 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 of the Exchange and records maintained in a computer or in any magnetic form.

### 1.6. 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; including Trading or Back office activity;
- (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.

### **1.7. Clearing Corporation**

“Clearing Corporation” for the purpose of these regulations means the MCX-SX Clearing Corporation or any other body which may be identified by the Exchange for the purpose of performing the clearing and settlement of transactions in the Capital Market Segment.

### **1.8. Clearing Delivery**

"Clearing delivery" means clearing and settlement through the Clearing House or Clearing Corporation in the manner prescribed in the relevant regulations of the Exchange.

### **1.9. Clearing House**

“Clearing House” for the purpose of these Regulations means the Division dealing with Clearing and Settlements of the trades done on the Capital Market Segment of the Exchange.

### **1.10. Constituent**

A “Constituent” means a person, including a Participant, on whose instructions and, on whose account, the Trading Member enters into any contract for the purchase or sale of any security or does any act in relation thereto.

### **1.11. Hand delivery**

"Hand delivery" means delivery and payment within the time or on the date stipulated when entering into the contract which time or date shall not be more than fourteen days following the date of the contract.

### **1.12. Market Type**

“Market type” refers to the different markets in which trading is permitted on the Trading system and includes Regular Markets, Auction Markets, Negotiated Markets or Block Deal windows or any other market as may be specified by the Exchange.

### **1.13. Member-Sub Broker Agreement**

“Member-Sub broker agreement” is an agreement which is executed between a Trading Member and his Sub-broker as specified by SEBI or the Exchange.

### **1.14. Member-Sub Broker Constituent Agreement**

“Member-Sub broker-Constituent agreement” is a tripartite agreement which is executed among the Trading Member, Sub-broker and its Constituent as specified by SEBI or the Exchange.

### **1.15. MSEI or Exchange**

MSEI or Exchange means the Metropolitan Stock Exchange of India Limited. The terms MSEI



and Exchange are used interchangeably.

### **1.16. Notification, Notice or Communication**

(1) It refers to any such intimation that can be served at ordinary business address and/or ordinary place of residence and/or last known address of the Trading Member/Constituent in any one or more of the following ways:-

- (a) by post
- (b) by registered post
- (c) under certificate of posting
- (d) by speed post / courier services.
- (e) by telegram
- (f) by affixing it on the door at the last known business or residential address
- (g) by oral communication to the party in the presence of a third person
- (h) 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
- (i) by sending a message through the Trading System
- (j) by electronic mail or fax
- (k) by hand delivery

(2) Any communication sent by the Exchange to any party 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 ways mentioned in clause (1) above.

### **1.17. Participant**

“Participant” refers to an entity as defined under Chapter VII of the Byelaws of Metropolitan Stock Exchange of India Limited.

### **1.18. Risk Disclosure Document**

“Risk Disclosure Document” refers to the document, to be issued by all trading members to all potential investors before registration as Constituent, detailing the basic risks involved in trading on the Capital Market Segment of the Exchange and meeting such other requirements as may be specified by the Exchange and/or SEBI.

### **1.19. Special Delivery Contract**

"Special delivery contract" means a contract providing for delivery and payment within any time exceeding fourteen days but not exceeding two months following the date of the contract unless extended by the relevant authority as provided in the relevant regulations of the Exchange.

### **1.20. Spot Delivery Contract**

"Spot delivery contract" means a contract as defined in sec 2 (i) of the Securities Contract (Regulation) Act, 1956.

### **1.21. Sub Broker**

"Sub-broker" means any person who is registered with SEBI under the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 as a Sub-broker.

### **1.22. Trading System**

"Trading System" refers to Automated Trading System of the Exchange which is referred to hereinafter as ATS.

### **1.23. Trade Type**

"Trade type" means the types of trades in any security admitted to the official list / Permitted list of the Exchange and includes Normal Market trades, Negotiated trades Odd Lot trade, Block Deal trade and any other type of trades that may be permitted by the Exchange or SEBI from time to time.

### **1.24. Transaction Type**

"Transaction type" refers to the different transaction types which are permitted on the Trading System and includes spot delivery, hand delivery, special delivery and clearing delivery transactions.

### **1.25. Interpretation**

Unless in the context it is explicitly stated otherwise, all words and expressions used herein 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 or Regulations made there-under
- (2) Securities and Exchange Board of India Act, 1992 and the Regulations made there-under
- (3) The Depositories Act, 1996 and the Regulations made thereunder
- (4) The Companies Act, 1956
- (5) Rules and Bye-laws of MSEI
- (6) Rules, Byelaws and/or Regulations of MCX-SX Clearing Corporation Limited

In case a term is defined in more than one of the above 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.

## 2. DEALINGS ON THE EXCHANGE

### 2 DEALINGS ON THE EXCHANGE

#### 2.1 TRADING SYSTEM

- 2.1.1 The Exchange shall provide an electronic Trading System in all the Securities admitted for dealings on the Capital Market Segment.
- 2.1.2 Trading on the Exchange shall be allowed only through Approved Workstation(s) located at locations approved by the Exchange for 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 Exchange).
- 2.1.3 The Trading Member shall use such equipment and software as specified by the Capital Market Segment of the Exchange from time to time for the purpose of accessing ATS..
- 2.1.4 The Capital Market Segment of the Exchange shall have the right to inspect equipment and software used for the purpose of accessing ATS..
- 2.1.5 Trading Member shall adopt such security procedures pertaining to connection to the Trading System as may be specified by the Capital Market Segment of the Exchange from time to time.
- 2.1.6 The Capital Market 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 any Trading Member.
- 2.1.7 Each Trading Member upon an application made in that regard shall be allotted a unique identification number by the Exchange and which number shall be used to log on (sign on) to the system.
- 2.1.8 A Trading Member/ Participant shall have a non-exclusive permission to use the Trading system as provided by the Exchange in the ordinary course of business as Trading Member/Participant.
- 2.1.9 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.
- 2.1.10 The permission to use the Trading System shall be subject to payment of such charges as the Exchange may from time to time prescribe in this regard.

- 2.1.11 A Trading Member/ Participant shall not, permit itself or any other person(s) to:
- (a) use the software provided by the Exchange for any purpose other than the purpose as approved and specified by the Exchange
  - (b) use the software provided by the Exchange on any equipment other than the workstation approved by the Exchange
  - (c) copy, alter, modify or make available to any other person the software provided by the Exchange
  - (d) use the software in any manner other than is the the manner as specified by the Exchange
  - (e) attempt directly or indirectly to decompile, disassemble or reverse engineer the same.
- 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 or reprocess, retransmits, store or use the facilities of the Trading System or the information provided by the Trading System except with the explicit approval of the Exchange and in the ordinary course of business to complete the transactions on the Exchange.
- 2.1.13 The Exchange shall provide its services and trading system on a best effort basis. However the Exchange shall not be liable for failure of ATS or software provided or for any loss, damage, or other costs arising in any way out of:
- (a) The failure of Telecom network or any other system of connectivity between the Trading Member work station system failures including failure of ancillary or associated systems, or fluctuation of power, or other environmental conditions; or
  - (b) Accident, transportation, neglect, misuse, errors, frauds of the Trading Member Participant or its Authorised Persons or the agents or any third party; or
  - (c) Any fault in any attachments or associated equipment (whether or not supplied by the Exchange or approved by the Exchange) and whether or not they form part of the trading workstation installation; or
  - (d) Act of God, fire, flood, war, act of violence, or any other similar occurrence; or
  - (e) Any incidental, special or consequential damages including without limitation of loss of profit.
- 2.1.14 Any failures of Trading System, software or connectivity 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 No Trading Member shall deal on or access the ATS system or related facilities through another Trading Member or on behalf of another Trading Member, without

prior approval of the Exchange in writing.

2.1.16 (a) A Trading Member/Sub-broker shall not deal with other Trading Member/Sub-broker for proprietary trading or for trading on behalf of Constituents, except with the prior permission of the Exchange in writing is obtained in this regard.

(b) A Trading Member/Sub-broker can deal with only one broker/sub-broker of another stock exchange for proprietary trading after intimating the name of such broker /sub-broker to the Exchange.

(c) A Trading Member can deal with only one broker of another stock exchange on behalf of Constituents after necessary registration as a sub-broker.

(d) A Sub-broker shall not be affiliated to more than one Trading Member of the Exchange.

## **2.2 TRADING MEMBERS, APPROVED USERS AND AUTHORISED PERSONS**

2.2.1 Subject to the provisions of this Chapter, Trading Members may appoint Authorised Person(s) for providing access to the Capital Market Segment of the Exchange, as an agent of the Trading Member, subject to prior approval of the Capital Market Segment and payment of such fee as may be specified by the Relevant Authority from time to time.

2.2.2 Trading Members and their Authorised Persons may appoint, Approved Users to operate their Trading Workstation(s), subject to prior approval of the Capital Market Segment and payment of such approval fee as may be specified by the Relevant Authority from time to time.

2.2.3 The Authorised Person may receive his remuneration whether by way of fees, charges, commission, salary or otherwise for his services only from the Trading Member and he shall not charge any amount from the Constituents.

2.2.4 Approved Users on the Capital Market Segment should have passed the certification program approved by SEBI.

2.2.5 Each Trading Member/ Participant shall be permitted to appoint such number of approved users as may be specified from time to time by the Capital Market Segment of the Exchange.

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

2.2.7 Each approved user shall be given a unique identification number only through which he shall have access to the ATS at all times.

- 2.2.8 An approved user can access the ATS system through a password and shall change such password from time to time subject to clause 2.2.10.
- 2.2.9 A Trading Member /Participant or its approved users thereof shall maintain complete secrecy of the passwords.
- 2.2.10 An approved user shall be required to set and change his password at the end of the password expiry period. The criteria for setting password expiry period shall be specified by the Capital Market Segment of the Exchange from time to time.
- 2.2.11 (a) Only persons who are registered as Trading Members and Participants in accordance with provisions of the Byelaws, Rules and Regulations of the Exchange 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 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 Capital Market 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 *inter alia* by the Exchange or any other Stock Exchange or SEBI.
- (e) No person shall be admitted as an Approved User unless he possess a valid Certification as approved by SEBI. The Certification obtained should be valid for the period specified by the Capital Market 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 Capital Market Segment of the Exchange of the expiry of the Certification, if any.
- 2.2.12.1 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 a Board or 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 member who is expelled or 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.

2.2.12.2 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 2.2.12.1 above.
- b) all the partners/ directors satisfies all the conditions at clause k) of regulation 2.2.12.1 above.
- c) the firm and the company satisfies all the conditions from clauses d) to j) of regulation 2.2.12.1 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 as securities business.

2.2.12.3 Every 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. The Trading Member shall certify that the Authorised Person complies with these Regulations while forwarding application to Exchange.

2.2.12.4 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.

2.2.12.5 Authorised Person(s) shall comply with the Rules, Bye-laws, Regulations and

Circulars of the Exchange. The Trading Member shall ensure that every Authorised Person and Approved User 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.

2.2.12.6 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 to which he is affiliated.

2.2.12.7 A person shall not be appointed as Authorised Person by more than one Trading Member of the Exchange.

2.2.12.8 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.

2.2.12.9 The Trading Member and Authorised Person shall enter into written agreement(s) in the form(s) approved or specified by the Exchange from time to time.

2.2.12.10 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
- 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 under these Regulations, 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 from time to time
- 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 and Bye-laws of the Exchange and also refer / report to SEBI for appropriate action.

Provided that no action shall be taken as above [except under clause (iii) above], unless a reasonable opportunity of making representation is given to the Member/Authorised Person.

2.2.12.11 Without prejudice to the generality of the above, the Capital Market Segment of the Exchange may withdraw any approval granted to such authorised person after giving a reasonable opportunity of being heard, 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

2.2.12.12 Notwithstanding anything contained in Regulations 2.2.12.10 and 2.2.12.11, 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 agreement / contract with such Trading Member.

2.2.12.13 Any dispute between a Constituent and an Authorised Person shall be treated as a dispute between the Constituent and the Trading Member.

2.2.13 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 Capital Market Segment of the Exchange in writing, in such form and manner as the Capital Market Segment of the Exchange may specify, immediately on taking such action and obtain confirmation from the Capital Market Segment of the Exchange of having received such intimation, and of the disabling of the particular approved user by the Capital Market 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 obtaining a confirmation as mentioned above from the Capital Market Segment of the Exchange. The Trading Member shall cancel all his outstanding orders in respect of such approved user. (when?)

2.2.14 Whenever an approved user of the Trading Member/Participant ceases to act in such or any capacity with such Trading Member then each such Trading Member shall inform the Capital Market Segment of the Exchange, within 24 hours, the name and other particulars of such approved user.

2.2.15 No application shall be made by any Trading Member/Participant under 2.2.11(a), if such a person for whom such an application is made, is already an approved user for any other Trading Member/ Participant of the Exchange.

2.2.16 The Capital Market 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 Capital Market Segment of the Exchange.

- 2.2.17 The Capital Market 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.
- 2.2.18 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.
- 2.2.19 An approved user shall not access or attempt to or 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.
- 2.2.20 A Trading Member/ Participant who wants the Capital Market 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.

### **2.3 TRADING DAYS**

- 2.3.1 The Capital Market segment of the Exchange shall operate on all days except Sundays and on such scheduled holidays as the Exchange may declare from time to time.
- 2.3.2 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 Exchange in this matter shall be final and binding.

### **2.4 TRADING HOURS**

- 2.4.1 The Exchange shall announce the regular trading hours for every calendar year in advance.
- 2.4.2 The Exchange may extend, advance or reduce trading hours by notifying Trading Members as and when it deems fit and necessary in this regard or as may be directed by SEBI in this regard.

### **2.5 TRADING PARAMETERS**

- 2.5.1 The Exchange may from time to time specify various trading parameters relating to the Trading System.
- 2.5.2 The Exchange 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 that shall make the order eligible to place it in those books.
- 2.5.3 The Exchange shall specify the minimum disclosed quantity for orders that will be

allowed.

2.5.4 The Exchange shall specify from time to time the lot size in which orders can be placed for any or all securities traded on the Exchange.

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

## **2.6 TRADE TYPES/SETTLEMENT PERIOD/TRANSACTION TYPES**

2.6.1 The Exchange shall permit and notify different kinds of trades in the securities included in its official list.

2.6.2 The Exchange shall prescribe from time to time different trade types, market types, that will be permitted to Trading Members or Participants for dealings in securities.

2.6.3 The Exchange shall prescribe from time to time the different settlement cycles / periods that will be permitted for Trading Members or securities and will be in conformity with the settlement Regulations of the Exchange/Clearing Corporation.

2.6.4 The Exchange shall allow from time to time different transactions types which shall include transaction for clearing for hand delivery, for special delivery or for spot delivery..

## **2.7 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 Exchange may at its sole discretion undertake on behalf of the Trading Member/Participant subject to availability of infrastructure (without any guarantee whatsoever) to carry out the necessary functions which the Trading Member/Participant is eligible to carry out on a valid request from such Trading Member/Participant subject to such terms and conditions which the Exchange may deem necessary to be imposed. The Exchange may entertain such request only if such request is made in writing in a manner prescribed by the Exchange. The Trading Member/Participant shall be solely responsible for the functions executed by the Exchange on their behalf as if they had been executed by the Trading Member / Participant and shall indemnify the Exchange against any losses or costs arising out of carrying out such functions.

### 3. DEALINGS IN SECURITIES

#### 3.1 DEALINGS IN SECURITIES

- 3.1.1 Dealings shall be permitted on the Capital Market Segment of the Exchange in securities as provided for in these Regulations and Bye-laws of the Exchange for such categories of Trading Members/Participants, trade types, market types, settlement periods and for such trading hours as the Exchange may specify from time to time.
- 3.1.2 The Exchange may at its discretion at any time suspend trading in a particular security or securities as it deems fit. Such suspension shall take effect, on such conditions and in such time and manner as the Exchange may prescribe in this regard in specific or generally.
- 3.1.3 The Exchange may also revoke suspension of trading in securities at any time.
- 3.1.4 Trading Members may trade on the Trading System in securities that are admitted for dealing on the Exchange or permitted securities, 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 Exchange may prescribe from time to time at its sole discretion.
- 3.1.5 When a Trading Member enters an order on behalf of a Mutual Fund or any of its Schemes, Foreign Institutional Investor or any of its sub-account holders or any other category of investors as may be specified by SEBI and/or MSEI, 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 Scheme, Foreign Institutional Investors or any of its sub-accounts or any other category of investor as may be specified by SEBI and/or MSEI, in such format and with effect from such date as may be notified by the Exchange.
- 3.1.6 The Exchange may, at any time restrict conditionally or unconditionally a Trading Member/Participant from dealing in a specified security or securities.
- 3.1.7 The Trading Member/Participant shall continue to be liable for all trades executed on the system for orders entered into the system by himself on his behalf. Trading Member/Participant shall be responsible for all the actions of their authorised persons.
- 3.1.8 Without prejudice to Regulation 4.7.3 (c) and (d), a Trading Member shall be responsible for all the actions including trades originating through or with the use of all any of following variables – a) Trading Member Id, b) User Id, c) valid User

password at that point of time. However if the Trading Member satisfies 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 Exchange may issue such directions as it considers just and reasonable. The directions may include referring the matter to arbitration and /or annulment of such trade (s) effected.

3.1.9 Particulars of Unique Client Code

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 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.

3.1.10 The Trading Member shall, in respect of all transactions in a security, where total quantity of shares bought/sold under proprietary or any single client code is more than such percentage of the number of equity shares of the company listed / permitted to be traded on the Exchange as may be prescribed by the relevant authority from time to time, disclose to the Exchange immediately upon execution of the trade, the name of the scrip, name of the Constituent, quantity of shares bought / sold and the traded price.

3.1.11 The information mentioned in Regulation 3.1.10 shall be furnished to the Exchange in such format and within such time as maybe prescribed by the Exchange from time to time. The Exchange may disseminate such information to the general public as maybe specified by the Relevant authority.

**3.2 TRADE OPERATIONS**

3.2.1 Trading Members shall ensure that appropriate confirmed order instructions are obtained from the constituents before placement of an order on the system and shall keep relevant records or documents of the same and of the completion or otherwise of these order thereof

3.2.2 The Trading Member shall make available to his constituent the ATS order number and shall dispatch copies of the order confirmation slip / modification slip to the Constituent.

3.2.3 However where the Trading Member has accumulated the orders of several

constituents to meet the requirement of the Regular lot quantity he may give his own order number referred to as the Reference Number, together with a reference to the ATS Order Number, to the constituent.

3.2.4 The procedure and conditions for amendment or cancellation of orders would be as specified by the Exchange from time to time.

3.2.5 Trading Members shall be solely responsible for the accuracy of details of all orders entered into the trading system including orders entered on behalf of his constituents.

3.2.6 Orders entered into the Trading System shall be subject to various validation requirements as specified by the Exchange from time to time including but not limited to trading parameters, turnover limits, exposure limits and/or other restrictions placed on traded securities. Orders that do not meet the validation checks shall not be accepted by the Trading System. If however such orders are accepted by the system due to any reason whatsoever the member shall be liable and responsible to honour the same or comply with such other directions as may be given by the Exchange.

3.2.7 Trades generated on the system are irrevocable and 'locked in'. The Exchange may specify from time to time the manner in which trade cancellation can be effected.

3.2.8 Where a trade cancellation is permitted and Trading Member wishes to cancel a trade, it may be done only with the approval of the Exchange and in the following manner:

- (a) The Trading Member wishing to cancel the trade shall initiate a cancellation request to the Exchange. The counter party Trading Member to the trade may approve such a request.
- (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(s) comes to Exchange from only one party to trade and is/are pending with the Exchange as a result of it being not confirmed by the counterparty to such trade within such time as may be notified by the Exchange, such request may be cancelled at the discretion of the Exchange.
- (d) 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 Exchange is not required to give the reasons for rejection or approval of any such trade cancellation request.
- (f) The Exchange may cancel a trade *suo motu* 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 upon the parties to the trade. In the event of such cancellation, Trading Member shall be entitled to cancel related contract(s) with his constituents.

### **3.3 MARGIN REQUIREMENTS**

3.3.1 Subject to the provisions as contained in the Rules and Bye-laws 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 Exchange, in the manner and to the extent and from such date as may be specified by the Exchange. Whenever a margin is payable by a Participant, it shall pay such margins directly to the Exchange, unless otherwise directed by the Exchange including VaR margins on an upfront basis.

3.3.2 The Exchange shall prescribe from time to time the securities, the settlement periods and trade types for which margin would be attracted.

3.3.3 The margin shall be deposited with the Exchange within such time as may be notified by the Exchange from time to time.

### **3.4 COMPOSITION OF ADDITIONAL CAPITAL AND MARGINS**

The relevant authority may specify the requirements of additional capital and margins for the Trading Members and the liquid assets that may be placed by them for meeting such requirements. The minimum cash component of such additional capital and margins shall be as specified by the relevant authority from time to time and the cash component may be in the form of cash or cash equivalents in the form and manner and subject to such conditions and restrictions as may be specified by relevant authority from time to time. The non-cash component shall be placed in such form and manner as may be specified by the relevant authority from time to time.

### **3.5 ORDER MANAGEMENT**

#### **3.5.1 ORDER TYPE**

The Exchange shall stipulate from time to time, the kinds of orders that a Trading Member can place in the 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 Exchange shall from time to time allow various order attributes subject to trading parameters prescribed by the Exchange,
- (b) The Exchange shall specify the order types and order attributes permitted for different market types, trade types, etc.

### **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 Capital Market Segment of the Exchange.
- (c) The modified order may not retain its time priority unless otherwise decided by 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 Exchange from time to time including trading parameters, turnover limits and/or other restrictions placed on traded. Orders that do not meet the validation checks shall not be accepted by the Trading System.

### **3.5.5 MATCHING RULES**

- (a) The Exchange shall specify from time to time the kinds of order books that shall be maintained on the system, the order matching algorithms and the matching rules and parameters that shall be followed therein.
- (b) The Exchange may modify or change such matching algorithms or order books any time where it is necessary to do so.
- (c) Where 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 security 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-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 Exchange.
- 3.6.2 A contract note shall be signed by a Trading Member or his Authorised signatory or constituted Attorney.
- 3.6.3 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. 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.
- 3.6.4 Contract note shall be time stamped with the time of placing of order and the time of execution of order

### **3.7 ELECTRONIC CONTRACT NOTE**

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, subject to any further conditions that may be specified by the Exchange/SEBI.

### **3.8 BROKERAGE**

- 3.8.1 All the orders entered on the Trading System shall be at prices exclusive of brokerage.
- 3.8.2 Trading Members shall charge brokerage at rates not exceeding such scale as the Exchange may specify from time to time.
- 3.8.3 A Trading Member shall charge brokerage separately to their constituents and this shall be indicated separately from the price, in the contract note.

### **3.9 INTEREST, DIVIDEND, RIGHTS/BONUS AND CALLS**

The buyer shall be entitled to receive all coupons, dividends, bonus, rights and other privileges which may appertain to securities cum coupon, cum dividend, cum bonus, cum rights, etc. and the seller shall be entitled to receive all coupons, dividends, bonus issues, rights and other privileges which may appertain to securities sold ex coupon, ex dividend, ex bonus, ex rights, etc.

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

The Trading Members shall have the right to demand from its Constituents the Margin Deposit which the member has to provide under these Regulations in respect of the business done by the Members for such constituents.

The Trading Members shall buy securities 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 securities proposed to be purchased, unless the constituent already has an equivalent credit with the broker. The Trading Member may not, if so desire, collect such a margin from Financial Institutions, Mutual funds and Foreign Institutional Investors.

The Trading Members shall sell securities on behalf of the constituent only on the receipt of margin of minimum of such percentage as the relevant authority may decide from time to time, on the price of the securities proposed to be sold, unless the Trading Member has received the securities to be sold with valid transfer documents to his satisfaction prior to such sale. The Trading Member may not, if so desire, collect such a margin from Financial Institutions, Mutual funds, and Foreign Institutional Investors.

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 may keep the unutilised margin deposits of his client in bank deposits and pay interest on the same at such rate as may be mutually agreed in writing between the Trading Member and his constituent out of the interest accrued on the said deposits.

### **3.11 TRADING MEMBER IN DEFAULT**

For the purpose of Bye-law 8 of Chapter XIII of the Bye-laws of the Exchange, the period within which a constituent shall close out his contract shall be seven trading days from the date of pay out of securities due to him; Provided however,

if the constituent has not effected the close out as stated above, he shall be deemed to have closed out at the highest price of the said security deliverable to him from the date of trading till the 7th trading day from the date of pay out and loss or damage referred in the said Bye-law shall be ascertained accordingly.

### 3.12 CONSTITUENT IN DEFAULT

If a Constituent fails to make payment of consideration to the trading member in respect of any one or more securities purchased by him before the pay-in date notified by the Exchange from time to time, the Trading Member shall be at liberty to sell the securities received in pay-out, in proportion to the amount not received, after taking into account any amount lying to the credit of the Constituent, by selling equivalent securities at any time on the Exchange not later than the fifth trading day reckoned from the date of pay-in. If the trading member has not sold the securities for any reason whatsoever, such securities shall be deemed to have been closed out at the close out price declared by the Exchange for the fifth trading day. The loss, if any, on account of the close out shall be to the account of the Constituent.

If a Constituent fails to deliver any one or more securities to the pool account of the trading member in respect of the securities sold by him before the pay-in date notified by the Exchange from time to time, such un-discharged obligation in relation to delivering any one or more securities shall be deemed to have been closed out at the auction price or close-out price, as may be debited to the Trading Member in respect of the security for the respective settlement, to the extent traceable to the Constituent who has failed to deliver; otherwise at the close out price on the date of pay-out in respect of the relevant securities, declared by the Exchange. The loss, if any, on account of the close out shall be to the account of the Constituent.

Subject to what is stated above, no further claims shall lie between the Constituent and Trading Member in this regard.

**Explanation:** If for any reason, schedule of pay-in and pay-out is modified the above provision shall be made applicable reckoning the actual date of pay-in and/or pay-out, as the case may be.

### 3.13 MARGIN TRADING FACILITY

Every Trading Member of the Exchange who desires to provide Margin Trading facility to his Constituents may be permitted by the Exchange to do so subject to such norms, guidelines, eligibility criteria as may be prescribed by SEBI or the Exchange from time to time.

For the purpose of this Regulation 'Margin Trading facility' means and refers to the facility pursuant to which part of the transaction value due to the Exchange, at

the time of purchase of securities, shall be paid by the Trading Member on behalf of the Constituent on Constituent's request, subject to norms, guidelines prescribed by SEBI or the Exchange from time to time and on such terms as may be mutually agreed between the Trading Member and the Constituent.

**3.14 COLLECTION OF SECURITIES TRANSACTION TAX & SEBI TURNOVER FEES**

Every Trading Member shall remit to the Exchange the Securities Transaction Tax (STT) and SEBI Turnover Fees, in respect of the transactions entered into by him on the Exchange either on his own 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 and/or fees. 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.

**3.15 COLLECTION OF PERMANENT ACCOUNT NUMBER (PAN)**

The Trading Members shall –

- (a) 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;
- (b) cross check the aforesaid details collected from their clients with the details on the website of the Income tax department; and
- (c) upload the details of PAN so collected to the Exchanges as part of unique client code.

Provided that nothing contained in this regulation shall apply in case the clients details are taken by the Trading Member from the database of a KYC Registration Agency registered with SEBI under the SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011.

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

### **4.1 OFFICE RELATED PROCEDURE**

- 4.1.1 No Trading Member shall carry on in any office or premises any activity connected with or pertaining to its operations as a Trading Member of the Exchange unless it has intimated to the Exchange the full address of such office or premises with details of the activity proposed to be so carried on therein and the person in whose supervision and control it is to be so carried on.
- 4.1.2 Each office, department for trading on the MSEI, shall be under the supervision and control of the Trading Member establishing it and of the personnel delegated with such authority and responsibility in this regard.
- 4.1.3 Every Trading Member shall ensure that all persons acting on 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 Exchange Bye-laws, Rules and Regulations or any other relevant Act(s) in force for the time being.
- 4.1.5 Where the Exchange feels it necessary, in the public interest to do so, it may at its own instance or on a complaint from another Trading Member or client, 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 there under.

### **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 there under as well as the relevant statutory Acts, Rules & Regulations.
- (b) The Trading Member for the purpose of better control may, if so required,

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.

- (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 Exchange before such person transacts any business on the Exchange.
- (d) A Trading Member shall maintain such records and make available to inspection by any person authorised in this behalf by the Exchange, the information related to such Trading Member's financial condition as prescribed by the Exchange for this purpose.
- (e) The Trading Member shall pay such fees, charges and other sum as the Exchange may notify from time to time, in such time and manner as required by the Exchange.
- (f) The Trading Member must inform 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 Exchange, where applicable

#### **4.2.2 INTERNAL INSPECTIONS**

Each Trading Member shall conduct a review, at least annually of its operations, systems and processes 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 Bye-laws, Rules and Regulations of the Exchange and Clearing Corporations (wherever applicable) and Circulars issued by SEBI, Exchange and Clearing Corporation.

#### **4.2.3 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.

#### **4.2.4 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 securities

transaction.

#### **4.2.5 QUALIFICATIONS INVESTIGATED**

Each Trading Member shall have the responsibility and duty to ascertain the good character, business repute, qualifications, and experience of any person prior certifying as such in the application for registration of such person, with the Exchange as Approved User, or any other capacity.

#### **4.3 RELATION WITH CONSTITUENTS**

4.3.1 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 all necessary documents including such Constituent account opening documents as may be prescribed by the Exchange from time to time. The Trading Member shall also obtain from all constituents other than individual constituents an authenticated copy of the board resolution permitting trading in Equities.

Provided however, a Trading Member may, at his discretion, not obtain Constituent Registration Form from a Constituent, who is a SEBI registered Foreign Institutional Investor, Mutual Fund, Venture Capital Fund and Foreign Venture Capital Investor, Scheduled Commercial Bank, Multilateral and Bilateral Development Financial Institution, State Industrial Development Corporation, Insurance Company registered with IRDA and Public Financial Institution as defined under Section 4A of the Companies Act, 1956.

4.3.2 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 deemed necessary by him or as may be required by SEBI and/or the Exchange or in terms of any law for the time being in force.

4.3.3 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.

4.3.4 Notwithstanding anything contained in Regulations 4.3.2 to 4.3.3, a member may use the 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.

4.3.5 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.

- 4.3.6 Trading Members who maintain their own websites, shall display the set of standard documents required in connection with Constituent registration and shall allow secured 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.
- 4.3.7 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.
- 4.3.8 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 securities 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 Exchange from time to time. The Trading Member shall furnish a copy of the Risk Disclosure Document to all his clients and obtain their acknowledgement.
- 4.3.9 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 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.
- 4.3.10 The Trading Member shall also bring to the notice of his constituents, including Participants any indictments, penalties, etc. imposed on him by the Exchange or any other regulatory authority.
- 4.3.11. 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.
- 4.3.12 Further responsibilities of Trading Members:
- (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.



#### **4.4 DISCLOSURE OF INVESTOR COMPLAINTS, ARBITRATION DETAILS AND DISCIPLINARY ACTION**

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 or any other website designated for this purpose including the details pertaining to arbitration and penal action taken by the Exchange or SEBI against the Trading Members, in such format and update at such periodicity as may be specified by SEBI.

#### **4.5 GUIDELINES GOVERNING RELATIONSHIP BETWEEN TRADING MEMBER AND CONSTITUENT**

4.5.1 The Trading Member shall not recommend to the constituent a sale or purchase of securities 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 security holdings, financial soundness and investment objectives.

4.5.2 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 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.

4.5.3 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.

4.5.4 The Trading Member shall not furnish any false or misleading information or advice to induce the constituent to do business in particular securities and which enable the Trading Member to make unfair gains.

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

4.5.6 A Trading Member shall inform his Constituents whether he does client based trading or Pro-account/Own Account trading. The Trading Member shall disclose the aforesaid information-

- (ii) to his new Constituents upfront at the time of first establishing the relationship with them;

- (iii) to the Constituents before carrying out any Pro-account trading, in case he presently does not do Pro-account / Own Account trading, but choose to do so at a later date.
- 4.5.7 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 executed, the Trading Member may, 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.
- 4.5.8 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, obtain the order cancellation details in writing from the Constituent. The Trading Member shall accordingly provide the Constituent with the relevant order cancellation details, forthwith, if so required by the Constituent.
- 4.5.9 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.
- 4.5.10 The Trading Member shall not accumulate constituent's order / unexecuted balances of order where such aggregate orders / aggregate of unexecuted balance is greater than the Regular lot size, specified for that security by the Exchange. The Trading Member shall place forthwith all the accumulated orders where they exceed the Regular lot size.
- 4.5.11 The Trading Member shall act promptly in accordance with the instructions provided by the constituent unless he has discretion as to the timing relating, in which case it must exercise its judgment as to the best moment.
- 4.5.12 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.  
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.
- 4.5.13 In addition to the guidelines issued by SEBI relating to the regulation of transactions between constituents and brokers, trading member shall at all times keep the money of his constituents in a separate bank account, and ensure proper segregation.
- 4.5.14 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 the Exchange.

4.5.15 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 Exchange.

4.5.16 The Trading Member shall make pay out of funds or delivery of securities as the case may be, to the Constituent within one (1) working day of receipt of the payout from the Exchange.

Provided, however, that in case the Constituent has given specific authorisation for retaining funds and securities, payout of such funds or delivery of such securities, as the case may be, may not be made within one working day from the receipt of payout from the Exchange and/or SEBI, subject to such terms and conditions as may be prescribed by the Exchange from time to time.

4.5.17 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.

4.5.18 (a) Trading Member shall not make payment in cash to the Constituents and shall not receive payment in cash from the Constituents.

(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 all 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.

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

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

The Trading Member shall at all times adhere to the Code of Conduct as specified by the Securities and Exchange Board of India (Stock Brokers and SubBrokers) Regulations, 1992.

#### 4.6.2 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 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, circulars, 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.

#### 4.6.3 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 have 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 Capital Market Segment

of the Exchange including any additions or amendments thereof.

- (c) Without prejudice to regulation 3.1.6 and 3.1.7,4.7.3(b) 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 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 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 or funds for the purposes other than those intended.
- (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 security 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 security unless such Trading Member can establish, if called for, that such quotation represents a bonafide order of such security.
- (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 facility of placing orders on 'Pro-account /Own Account' through trading terminals shall be availed by the Trading Members only at one location of the Trading Members as indicated by the Trading Members to the Exchange. 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/ Own Account' through trading terminals from more than one location, such Trading Member shall request the Exchange stating the reason for using the 'Pro-account/ Own 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 / Own Account' from more than one location.

#### 4.6.4 GENERAL GUIDELINES

A Trading Member shall desist from the following trading practices while conducting business on 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 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 Exchange authorised in that behalf.

**(b) Suspended Securities**

Except with the permission of the Exchange, no Trading Member shall transact in securities which have been suspended from official quotation.

**(c) Misleading Transactions**

A Trading Member shall not -

- (i) make bids and/or offers for securities with an intention of creating a false or misleading appearance with respect to the market for, or the price of any security or;
- (ii) make a transaction or give an order for the purchase or sale of securities, the execution of which would involve no change of beneficial ownership, unless the Trading Member had no knowledge that the transaction would not involve a change in the beneficial ownership of securities.

**(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 ownership of securities, 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.

#### **4.7 FRAUDULENT AND UNFAIR TRADING PRACTICES**

4.7.1 No Trading member shall buy, sell or deal in securities in a fraudulent manner or indulge in any unfair trade practices including market manipulation.

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

- (a) effect, take part in or enter into either directly or indirectly transactions in securities, which are likely to have the effect of artificially raising or depressing or stabilising the price of securities;
- (b) indulge in any act, which is calculated to create a false or misleading appearance of trading in an eligible security or, results in reflection of prices of securities based on transactions, which are not genuine transactions;
- (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 securities.

4.7.3 No person shall make a statement, or disseminate information which is misleading in a material particular which is likely to induce the sale of security by other persons or is likely to have the effect of maintaining or stabilising the market price of security if, when he makes or disseminates the information –

- (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.

4.7.4 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 security; or
- (b) buy, sell or deal in securities 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 security in; or
- (c) delay the transfer of security in the name of the transferee which results in the price of the security increasing or decreasing; 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 Capital Market segment of the Stock 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 Stock Exchange.

#### **4.8 OBLIGATION OF SUB-BROKER**

Every Sub-broker shall comply with all relevant statutory Acts, including Securities Contracts (Regulation) Act, 1956 and Rules thereunder of 1957, and Securities Exchange Board of India Act, 1992 and Rules, Regulations and guidelines thereunder, Byelaws, Rules and Regulations of the Exchange and the requirements of and under any notifications, directives, guidelines and circulars issued by SEBI and/or the Exchange.



## 5. ARBITRATION

### 5.1 DEFINITIONS

For the purpose of this Chapter, unless the context otherwise requires,

- (a) 'Act' shall mean the Arbitration & Conciliation Act, 1996.
- (b) 'Arbitrator' means a sole arbitrator or a panel of arbitrators.
- (c) 'Applicant' means the person who makes the application for initiating arbitral proceedings.
- (d) 'Respondent' means the person against whom the Applicant lodges an arbitration application, whether or not there is a claim against such person.
- (e) 'RAC' or Regional Arbitration Centres of the Exchange are currently located in Delhi, Kolkata, Chennai and Mumbai. The number of such centres may be added or deleted from time to time as may be notified by the Exchange.

### 5.2 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.

### 5.3 CRITERIA FOR SELECTION OF SEAT OF ARBITRATION

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

<b>Parties to Dispute</b>	<b>Place of filing the Application for Arbitration</b>	<b>Place of Hearing</b>
TM* V/s TM	<p>a) If the dealing offices of both Trading Members from where the transaction 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 transaction 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.
C V/s I*	The Application for Arbitration shall be filed by the Applicant (constituent) at the RAC covering the state in which the applicant actually and voluntarily resides	The hearing shall be held in that RAC where the Applicant (Constituent) has filed the Application for Arbitration and the Respondent (Issuer) shall attend the hearing in that particular RAC.

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

5.3.2 In the event the seat of Arbitration as mentioned in Regulation 5.2(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.

5.3.3 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.

#### 5.4 **JURISDICTION OF COURTS**

For the purpose of Byelaw 19 of Chapter XIV of the Byelaws of the Exchange, in matters where the Exchange is a party to the dispute, the Civil Courts at Mumbai shall have exclusive jurisdiction and in all other matters, proper courts within the area covered under the respective Regional Arbitration Centre shall have jurisdiction in respect of the arbitration proceedings falling / conducted in that Regional Arbitration Centre.

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

- (a) The Relevant Authority shall specify whether a claim, difference or dispute shall be referred to a sole arbitrator or a panel of arbitrators.
- (b) Where any claim, difference or dispute arises between Sub-broker and Client of the Sub-broker, in such claim, difference or dispute, the Trading Member, to whom such Sub-broker is affiliated, shall be impleaded as a party.
- (c) For the purpose of Byelaw 3 of Chapter XIV of the Byelaws of the Exchange, in cases where the date of claim, difference or dispute is not ascertainable, it shall be deemed to have arisen on the date of expiry of six months from the date of the transaction in respect of which the claim, difference or dispute has arisen.
- (d) For the purpose of Byelaw 3 of Chapter XIV of the Byelaws of the Exchange in cases where the date of claim, difference or dispute arising out of Byelaw 1E is not ascertainable,
  - A. in case the Issuer refuses or fails to communicate to the Constituent the transfer of shares, the date of dispute shall be deemed to have arisen on the date of expiry of six months from
    - (i) the date of receipt of communication of issuer refusing to transfer the shares in favour of the Constituent; or

- (ii) the date of expiry of 30 days from the date of lodgment of shares by the Constituent for transfer with the issuer, whichever is later; and
- B. in case the Issuer delays the transfer of shares of the Constituent beyond the stipulated period, the date of dispute shall be deemed to have arisen on the date of expiry of six months from
  - (i) the date of expiry of 30 days from the date of lodgment of shares by the Constituent for transfer with the issuer; or
  - (ii) the date of receipt of communication of the Issuer to the Constituent accepting the transfer of shares of Constituent, whichever is later.

## **5.6 GUIDELINES FOR FAIR PRACTICES/CODE OF CONDUCT FOR ARBITRATORS**

Persons appointed as arbitrators shall:-

- (a) Act in a fair, unbiased and objective manner
- (b) Maintain the highest standard of personal integrity, truthfulness, honesty and fortitude in discharge of his dispute in order to inspire public confidence and shall not engage in acts discreditable to his responsibilities
- (c) Avoid any interest or activity which is in conflict with the conduct of his duties as an arbitrator.
- (d) Perform his duty in an independent and objective manner and avoid activities that may impair, or may appear to impair, his independence or objectivity.
- (e) Disclose his interest or conflict in particular cases i.e. whether any party to the proceeding had any dealing with or related to the arbitrator
- (f) Ensure that all the provisions of the arbitration and conciliation act 1996, SEBI Act, 1992 Securities Contract (Regulations) Act, 1956, and Rules Regulations and Bye Laws framed there under and the circulars, directions issued by the SEBI in respect of Arbitration and dealing in securities are followed.
- (g) Endeavour that the arbitral award is passed within the minimum period stipulated by the Bye-laws, Rules and Regulations of the Exchange.
- (h) Endeavour that adjournments, if any, are granted as an exception rather than a rule and after recording the reasons thereof in writing.
- (i) Ensure that the awards are detailed and well reasoned.
- (j) Ensure that the principles of natural justice are followed.

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

- (a) The relevant authority may prefer persons with background in law, finance, management, administration and experience in the areas related to securities market over other candidates and shall consider both educational qualification and experience

of the candidates.

- (b) In case of re-nomination of an existing person on list of eligible persons, the relevant authority shall consider the past experience with such persons, such as time taken for passing awards, quality of awards passed, complaints received, if any, against the arbitrator.
- (c) Such list of eligible persons may be constituted for each Regional Arbitration Centre.
- (d) The relevant authority shall obtain the following declaration from all persons included in the list of eligible persons;
  - (i) Confirming that he/she was not involved in any act of fraud or dishonesty or moral turpitude or found guilty of any economic offence.
  - (ii) Disclosing the names of his dependents that are associated with the securities market as Trading Member/ Sub- brokers or major investors.

## **5.8 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/IIA by the Applicant along with Form No. I/IA. The Respondent shall submit the names in Form No. II/IIA within 7 days of the receipt of Form No. I/IA from the Stock Exchange. Upon receiving the Form No. II/IIA 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 Stock 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/IIA, and the Respondent submits Form II/IIA, 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/IIA 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.

#### **5.9 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 5.7 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/IIA already submitted by the Applicant and by the Respondent shall be considered.

#### **5.10 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/IA or Form No. III/IIIA, 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.
- (b) Without prejudice to provisions of Clause (a) above, in any claim, difference or dispute to which a sub-broker is a party, if the Sub-broker fails to make the deposit with the Exchange in accordance with the provisions of Clause (a) above, then the Trading Member to whom such Sub-broker is affiliated shall be liable to make the deposit with the Exchange.
- (c) 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

- (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. In such cases, the costs incurred for conducting the arbitration proceedings for and on behalf of the Constituent shall be borne by the Stock Exchange.
- (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 6 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 6 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- the Stock Exchange.
- (f) The period of 6 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, whichever 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.



## **5.11 PROCEDURE FOR ARBITRATION**

- (a) The Applicant shall submit to the Exchange application for arbitration in Form No. I/IA, (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/IA:
- (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/IIA 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/IA, the Exchange shall forward a copy of the statement of case and related documents to the Respondent.
- (e) Upon receiving Form No. I/A, the Respondent shall submit Form II/IIA 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 5.7
- (f) Upon receiving Form No. II/IIA from the Respondent(s), the arbitrator shall be appointed as per the procedure prescribed in Regulation 5.8. 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/IIA 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/IA from the Exchange, submit to the Exchange in Form No. III/IIIA 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 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/IIIA.
- (i) If the Respondent fails to submit Form III/IIIA within the prescribed time, then the arbitrator may proceed with the arbitral proceedings and make the award ex parte.
- (j) Upon receiving Form No. III/IIIA 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/IIIA, 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.

## **5.12 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.

## **5.13 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.

#### **5.14 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.

#### **5.15 PERSONS AUTHORISED TO REPRESENT**

Any person representing the constituent in the arbitral proceedings shall be permitted to do so on production of a power of attorney duly executed and notarised by the constituent in his favour, provided however in case of a Trading Member, he shall appear in the hearings on his own or through his authorised representative.

For the purpose of this Regulation, an authorised representative in case of a Trading Member 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.

#### **5.16 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, if so desired by the parties or may dismiss the matter summarily on an application made by the applicant for withdrawal of arbitration matter due to settlement with the other party.

#### **5.17 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. Contract notes and bills.
2. Statement of accounts given by the trading member to the constituent on periodic basis.
3. Bank statements supported by confirmation from the bank regarding payments / receipts.

4. Transaction cum Holding statements of the demat account(s) of the applicants and respondents with the depository.
5. Unique id upload, if any, from the members to Exchange with regard to the client.
6. 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.

#### **5.18 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.

#### **5.19 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.

#### **5.20 LIABILITY OF THE TRADING MEMBER**

In case of claims, differences and disputes to which a Sub-broker is a party, if the arbitral award is made against such a Sub-broker then the Sub-broker shall be liable to comply with such arbitral award. If the Sub-broker fails to comply with such arbitral award, then the Trading Member to whom the Sub-broker is affiliated shall be liable to comply with such arbitral award as if such arbitral award has been made against such Trading Member within such time period as may be specified by the Exchange.

#### **5.21 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.

## **5.22 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.

## **5.23 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) by speed post/courier services,
  - (iv) by affixing it on the door at the last known business or residential address,
  - (v) 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,
  - (vi) by sending a message through the Trading System,
  - (vii) by electronic mail or fax
  - (viii) 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

#### **5.24 PRESERVATION OF DOCUMENTS**

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.

#### **5.25 PROCEDURE FOR DESTRUCTION OF RECORDS**

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)

(b) Name of the Contract traded

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

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.

## **6. APPELLATE ARBITRATION**

### **6.1 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.

### **6.2 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.

### **6.3 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.

### **6.4 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 Stock Exchange shall identify the panel of arbitrators to whom the Memorandum of Appeal will be referred in the following manner:
  - (i) The Stock 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.

## **6.5 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.

## **6.6 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 6.4
- (e) Upon receiving Form B from the Respondent(s), the arbitrator shall be appointed as per the procedure prescribed in Regulation 6.4. 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.

#### **6.7 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 5.7 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.

#### **6.8 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.

#### **6.9 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.

#### **6.10 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.

#### **6.11 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 or may dismiss the matter summarily on an application made by the appellant for withdrawal of matter due to settlement with the other party.

#### **6.12 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.

#### **6.13 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.

#### **6.14 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.

#### **6.15 APPLICABILITY OF CHAPTER 5**

Except where specific provision is made in these Regulations, the provisions of Regulations 5.6 to 5.8 and 5.22 to 5.25 of Chapter 5 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.

## **7. RECORDS, ANNUAL ACCOUNTS & AUDIT**

### **7.1 RECORDS**

**7.1.1** 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 other authority acting under the authority or direction of the Central Government relating to maintenance of accounts and records.

**7.1.2** In additions to the requirements as per regulation 7.1.1 above, every Trading Member of the Exchange shall comply with the following requirements and such other requirements as 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 Exchange.

**7.1.3** Where a Trading Member holds membership of any other recognized stock exchange(s), such a Trading Member shall maintain separate books of accounts, records and documents for trades executed on each recognised stock exchange.

**7.1.4** Every Trading Member of the Exchange shall maintain the following records either electronically or physically relating to its business for a period of five years:-

- (a) Statements of fund and securities obligations received from the clearing House /Clearing Corporation.
- (b) Records in respect of dividend/ interest received on securities of constituents, monies borrowed and loaned including monies received.
- (c) Records in respect of brokerage collected separately from constituents.
- (d) Register of transaction (or other records of original entry) containing an itemised daily record of all purchases and sales of securities, showing for each such transaction effected, the name of securities, value of securities, rates both gross and net of brokerage and name of constituents.
- (e) Register or Ledger Account of Securities, client wise and security wise, giving, interalia, the following details viz., date of receipt of the security, quantity received, party from whom received, purpose of receipt, date of delivery of the security, quantity delivered, party to whom delivered and purpose of delivery and a separate register or ledger in respect of its own securities.

**7.1.5** Every Trading Member of the Exchange may for the purpose of better internal control and management, if it so desires, also maintain the following record relating to its business either electronically or physically.

- (a) Order confirmation slips, Order modification slips as obtained from the trading system of the Exchange.
- (b) Trade confirmation slips as obtained from the trading system of the Exchange
- (c) Record of all statements received from the settling agencies and record of all correspondence with them.
- (d) Order Book reflecting the following:
  - (i) identity of person receiving the order
  - (ii) date and time of order received
  - (iii) name of person placing the order
  - (iv) name of constituent, description and value of securities 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 Exchange or Trading Member order number as the case may be.
  - (vii) any modification or cancellation thereof including cases when it is cancelled by the system or cancelled due to maturity of an instrument.
  - (viii) if executed, the price/rate at which executed and to the extent feasible, the time of execution or cancellation and trade number as per the trading system 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.
- (e) Reports produced from the trading system like Order log and Trades Done Today
- (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
  - (iii) New Orders
  - (iv) Outstanding Orders
  - (v) Trades done
- (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 contracts, expiration dates of 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 Stock 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 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.

**7.1.6** 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.

**7.1.7** 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 Stock Exchange.

**7.1.8** (a) Every Trading Member shall keep such books of accounts, as will be necessary, to show and distinguish, in connection with his business as a Trading Member:

- (i) The moneys received from or on account of and moneys paid to or on account of each of his clients 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 clients and their own money in separate accounts. No payment for transaction in which the Trading Member is taking a position as a principal will be allowed to be made from the client's account.

(c) The transfer from client's account to Trading Member's account shall be allowed only under 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.

(d) 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.

(e) The Trading Members shall keep a separate ledger account for each client in respect of the transactions on the Exchange and shall not mingle such account with the account of the client in respect of transactions of any other stock exchange or any other transaction which the trading member may enter into with such client.

(f) (i) The Trading Members shall keep the dematerialised securities of Constituents in a separate beneficiary account distinct from the beneficiary account maintained for holding their own dematerialised securities. No delivery towards the own transactions of the Trading Members shall be allowed to be made from the account meant for Constituents. For this purpose, every Trading Member is required to open a beneficiary account in the name of the Trading Member exclusively for the securities of the Constituents (hereinafter to be referred to as "Constituents beneficiary account"). A Trading Member may keep one consolidated Constituents' beneficiary account for all its Constituents or different accounts for each of its Constituents as it may deem fit.

(ii) Securities to be delivered into Constituents beneficiary account: No security shall be delivered into Constituents beneficiary account, other than  
A) securities held or received on account of Constituents towards margin or security deposit.

B) securities for replacement of those which may by mistake or accident or otherwise have been drawn from the account.

(iii) Securities to be withdrawn from Constituents beneficiary account: No security shall be drawn from Constituents beneficiary account other than

A) when they are properly required, for delivery to or on behalf of Constituents, for or towards meeting the Constituents' margin or pay-in obligations;

B) what are drawn under Constituents' authority in respect of which there is a liability of Constituents to the Trading Member;

C) securities which by mistake or accident have been deposited into the account;

Provided further that the securities so drawn shall not in any case exceed the securities so held for the time being for the respective Constituent.

- 7.1.9** Every Trading Member shall maintain permanently copies of agreements executed with each of its constituent in accordance with the Capital Market Segment of the Exchange requirements.
- 7.1.10** Every Trading Member shall maintain permanently copies of agreements and documents executed with each of the settling agencies or banks.
- 7.1.11** Every Trading Member shall maintain records of all relevant particulars of persons which are approved as approved users by the Exchange.
- 7.1.12** 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.
- 7.1.13** 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.
- 7.1.14** 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.
- 7.1.15** Every Trading Member shall preserve for a period of not less than six 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.
- 7.1.16** A Trading Member shall intimate to the Exchange the place where these records are kept and available for audit/inspection.
- 7.1.17** 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.
- 7.1.18** 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 Stock Exchange.
- 7.1.19** 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 Exchange then the particulars thereof.

- 7.1.20** 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.
- 7.1.21** 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.
- 7.1.22** The Trading Member shall maintain records of collateral so as to ensure proper audit trail of use of Constituent's collateral and such other records relating to his business as may be prescribed by the Exchange from time to time.
- 7.1.23** 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.

## **7.2 ANNUAL ACCOUNTS AND AUDIT**

- (a) Each Trading Member shall prepare annual accounts for each financial year ending on 31st March or such other date as advised to the Exchange.
- (b) 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.
- (c) Each Trading Member shall furnish to 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 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.
- (d) Each Trading Member shall get the complete internal audit done on a half yearly basis by an independent qualified Chartered Accountant, Company Secretary or Cost and Management Accountant, who is in practice or any other person prescribed by SEBI or the Exchange as qualified to do so and who does not have any conflict of interest and submit the report within such time and in such format as may be prescribed by the Stock Exchange and/or SEBI from time to time.
- (e) A Trading Member shall maintain such minimum networth as may be specified by SEBI or the Exchange at all points in time.

## 8. INSPECTION

### 8.1 INSPECTION AUTHORITY

**8.1.1** Where it appears to the Capital Market segment of the Exchange it is expedient 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 Persons, Sub brokers, Constituent, for any of the purposes specified in regulation. 8.1.2.

- (a) The Inspecting authority appointed by the Exchange under Regulation 8.1.1 may be either its own officials or outside professionals.
- (b) When the Exchange appoints outside professionals as an inspecting authority, it shall notify the Trading Member the names and addresses of the professionals or firms so appointed as an inspecting authority at the time of inspection.
- (c) When outside professionals are appointed as an inspecting authority in respect of a Trading Member and such professionals are already related in any other capacity with the Trading Member then such member shall forthwith inform the Exchange of such relationship.
- (d) Where after appointment of any outside professional as an inspecting authority in respect of a Trading Member, the Trading Member or any of its associates engages the inspecting authority for its services in any other capacity, the inspecting authority shall not engage itself in such other professional capacity with the Trading Member or any of its associates without prior consent of the Exchange.

**8.1.2** The purposes referred to in regulation 8.1.1 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, 1992, Rules and Regulations thereunder are being complied with;
- (c) to ensure that provisions of the Securities Contracts (Regulation) Act, 1956 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;
- (e) to ensure efficacy of the investor grievance redressal mechanism and verify discharge of various obligations towards clients
- (f) to investigate into the complaints received from investors, other members of the Exchange or any other person on any matter having a bearing on the activities of the Trading Member;
- (g) to investigate suo-moto, for any reason where circumstances so warrant an inspection, into the affairs of the Trading Member;
- (h) to examine whether any notices, circulars, instructions or orders issued by the

Exchange from time to time relating to trading and other activities of Trading Members are being complied with;

- (i) to comply with any of the directives issued in this behalf by any regulating authority including Government of India.
- (j) to verify whether Authorised Person(s) of the Trading Member comply with the requirements specified by SEBI and/or the Exchange.

## **8.2 NOTICE**

8.2.1 Before undertaking any inspection under regulation 8.1.1, the Exchange shall give a reasonable notice to the Trading Member for that purpose.

8.2.2 Notwithstanding anything contained in sub regulation 8.2.1, where 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.

8.2.3 Exchange officials or the inspecting authority appointed by 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 8.3.

## **8.3 OBLIGATIONS OF A TRADING MEMBER ON INSPECTION**

8.3.1 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.

8.3.2 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 may be retained by the Inspecting Authority. Copies so retained shall be the property of the Exchange.

8.3.3 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.

8.3.4 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.

8.3.5 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.

8.3.6 The inspecting authority shall have access to the accounts and other records relating to the Trading Member or such access as authorised by the 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.

#### **8.4 SUBMISSION OF REPORT**

8.4.1 The inspecting authority shall submit an inspection report to the Exchange, within such time as the Exchange may specify in this regard.

8.4.2 All documents, papers, returns or their copies submitted to the inspecting authority may be retained by it on behalf of the Exchange. It shall maintain complete confidentiality thereof and no disclosure of any information contained therein shall be made to any person, firm, company or authority unless required by any law for the time being in force and without approval of the Exchange in this regard.

8.4.3 (a) 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 The Exchange on the findings of the Inspecting Authority.

(b) On receipt of the explanation, if any, from the Trading Member of the Exchange may call upon Trading Member to take such measures the Exchange may deem fit in the public interest.

(c) Notwithstanding anything contained in sub regulation 8.4.3(a), where 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.

#### **8.5 COLLECTION AND DISSEMINATION OF INFORMATION**

8.5.1 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.

8.5.2 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.

8.5.3 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.

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## [9. NON-COMPLIANCES BY LISTED ISSUERS]<sup>2</sup>

### A. Fines and Penalties

#### 9.1 Imposition of Fine

The relevant authority shall impose fine on listed issuers for non-compliance with certain clauses of the listing agreement due to non-submission /delay in submission of reports/documents as under:

Sr. No.	Clause of Listing Agreement	Fine payable for 1 <sup>st</sup> non-compliance	Fine payable each subsequent and consecutive non-compliance
1.	<b>Listing agreement Clause 31:</b> Non-submission of the Annual Report within period prescribed under this clause.	If non-compliance continues for more than 5 days, ₹1,000/- per day till the date of compliance.	₹2,000/- per day till the date of compliance.
2.	<b>Listing agreement Clause 35</b> Non submission of the Shareholding pattern within period prescribed under this clause.	₹1,000/- per day till the date of compliance and If non-compliance continues for more than 15 days additional fine of 0.1 % of paid up capital* of the entity or ₹1 crore, whichever is less.	₹2,000/- per day till the date of compliance and If non-compliance continues for more than 15 days additional fine of 0.1 % of paid up capital* of the entity or ₹1 crore, whichever is less.
3.	<b>Listing agreement Clause 41</b> Non submission of the date of compliance date of compliance financial results within period and and prescribed under this clause.	₹5,000/- per day till the date of compliance and If non-compliance continues for more than 15 days additional fine of 0.1 % of Paid Up capital* of the entity or ₹ 1 crore, whichever is less.	₹10,000/- per day till the date of compliance and If non-compliance continues for more than 15 days additional fine of 0.1 % of Paid Up capital* of the entity or ₹ 1 crore, whichever is less.

<sup>2</sup> Inserted w.e.f. April 15, 2014.

Sr. No.	Clause of Listing Agreement	Fine payable for 1 <sup>st</sup> non-compliance	Fine payable each subsequent and consecutive non-compliance
4.	<b>Listing agreement Clause 49</b> Non submission of the Corporate governance compliance report within period provided under this clause.	₹1,000/- per day till the date of compliance.	₹2,000/- per day till the date of compliance.

\*Paid up capital as on first day of the financial year in which the non-compliance occurs.

Provided that the relevant authority may also impose fines for such other non-compliance of the Listing Agreement or any other regulatory amendments as reissue thereof, as may be specified by SEBI.

## 9.2 Transfer to Investor Protection Fund

The amount of fine realized as per the above structure shall be credited to the "Investor Protection Fund" of the Stock Exchange.

## 9.3 Duty of the Stock Exchange

- a) The Stock Exchange shall review the compliance status of the listed issuers on a periodical basis specified by SEBI and issue notices to the non-compliant listed issuers to ensure compliance and pay fine as per this circular within 15 days from the date of the notice.
- b) If any non-compliant listed issuer fails to pay the fine despite receipt of the notice as stated above, the relevant authority may initiate appropriate enforcement action including prosecution.
- c) The names of non-compliant listed issuers that are liable to pay fine for non-compliance of the above clauses of the listing agreement and the action(s) taken against the listed issuers for non-compliances of the listing conditions may be displayed on the website of the Stock Exchange.

## 9.4 Creation of a new category "Z" for trading

- a) If a listed issuer commits two or more consecutive defaults in compliance of the aforesaid clauses of the listing agreement within 15 days from date of the notice. The relevant authority shall, in addition to imposing fine as specified above, move the scrip of the listed entities to "Z" category.
- b) The relevant authority shall move back the scrip of the listed issuer to the normal trading category, if it complies with respective clauses of the listing agreement and pays fine as prescribed above.

- c) The Stock Exchange shall give 7 days prior public notice to investors before moving the share of non-compliant entity to "Z" category or vice versa.

## **B. Standard Operating Procedure (SOP)**

### **9.5 Criteria for suspension**

The following criteria or any other criteria specified by SEBI shall be considered by the relevant authority for suspension of the trading in the shares of the listed issuers:

- (a) failure to comply with clause 31 of listing agreement with respect to submission of Annual Report for 2 consecutive financial years;
- (b) failure to comply with clause 35 of listing agreement with respect to submission of shareholding pattern for two consecutive quarters;
- (c) failure to comply with clause 41 of listing agreement with respect to submission of financial results for two consecutive quarters;
- (d) failure to comply with clause 49 of listing agreement with respect to submission of corporate governance compliance report for two consecutive quarters;
- (e) failure to submit information on the reconciliation of shares and capital audit report, for two consecutive quarters;
- (f) receipt of the notice of suspension of trading of that issuer by any other Stock Exchange on any or all of the above grounds.

### **9.6 Service of Notice**

Before suspension of trading on any of the above grounds, except Regulation 9.5 (f), the Stock Exchange shall send written intimation to the non-compliant listed entity calling upon it to comply with respective requirement/s mentioned in clauses (a) to (e) of Regulation 9.5 and pay the applicable fine within 21 days of the date of the intimation.

### **9.7 Freezing of shares of listed issuer**

If the non-compliant listed issuer fails to comply with aforesaid requirement/s and pay fine despite the receipt of the intimation of the Stock Exchange within the time as specified by the relevant authority, the relevant authority may intimate the depositories to freeze entire shareholding of the promoter and promoter group of the non-compliant issuer. Simultaneously, the Stock Exchange shall give a 21 days (prior to the proposed date of suspension) public notice on its website proposing suspension of trading in the shares of the non-compliant listed issuer.

### **9.8 Unfreezing of shares of listed issuer**

If the non-compliant listed entity complies with respective requirement/s and pays fine five days before the proposed date of suspension, the trading in its shares shall not be suspended on the proposed date. The relevant authority shall then intimate the depositories to unfreeze, after one month from the date of compliance, the shares of the promoter and promoter group of the issuer. The relevant authority shall simultaneously give a public notice on Stock Exchange website informing compliance by the entity.

### **9.9 Suspension of trading in shares of listed issuer**

In case the listed issuer fails to comply with respective requirement/s and/or pay fine as aforesaid, the relevant authority shall suspend the trading in the shares of a non-compliant listed entity. The entire shareholding of promoter/promoter group of such non-compliant listed issuer shall remain frozen till expiry of three months from the date of revocation of suspension.

### **9.10 Suspension of trading in shares of listed issuer in other Stock Exchanges**

While suspending trading in the shares of the non-compliant entity the relevant authority shall send intimation of suspension to other Stock Exchanges where the shares of the non-compliant entity are listed. On receipt of such intimation other Stock Exchanges shall also suspend trading in the shares of the entity.

### **9.11 Trading in shares of listed issuer on "Trade for Trade" basis**

After 15 days of suspension, trading in the shares of non-compliant issuer may be allowed on the "Trade for Trade" basis, on the first trading day of every week for 6 months. Members shall obtain confirmation from clients before accepting an order for purchase of shares of non-compliant issuer on such 'Trade for Trade' basis.

The relevant authority shall publish a caution message stating that "Trading in shares of the company is under 'suspension and trade to trade basis' and trading shall stop completely if the company remains not compliant for six months " on the trading terminals.

### **9.12 SOP for revocation of suspension of trading**

- a. If the non-compliant listed issuer complies with the aforesaid requirement/s and pays applicable fine within three months from the date of suspension, the relevant authority may revoke the suspension of trading of its shares.
- b. If the non-compliant listed entity complies with the aforesaid requirement/s and pays applicable fine after three months from the date of suspension, the relevant authority shall revoke the suspension of trading of its shares after a period of three more months from the date of such compliance.
- c. The relevant authority shall, seven days prior to revocation of suspension of trading in shares of the entity, issue public notice on its website.

- d. After 3 months from the date of revocation of suspension, the relevant authority shall send intimation to the depositories to unfreeze the shares of the promoter and promoter group of the listed issuer.
- e. After revocation of suspension, the trading of shares shall be permitted only in the 'Trade for Trade' basis for a period of three months from the date of revocation and after this period of three months, trading in the shares of the issuer shall be shifted back to the normal trading category, after giving prior notice of 7 days to the issuer.

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