



**CIRCULAR**

**CIR/MRD/DSA/17/2010**

**May 18, 2010**

To

The Managing Director / Executive Director / CEO of all the Stock Exchanges and their Clearing House / Clearing Corporation.

Dear Sir/Madam,

**Sub: Setting up of a Stock exchange/ a trading platform by a recognized stock exchange having nationwide trading terminals for SME**

On November 05, 2008 SEBI had laid down the framework for recognition and supervision of stock exchanges/platforms of stock exchanges for small and medium enterprises (SMEs).

2. In order to lay down the policy for issue, listing and trading of the securities issued by the SMEs, necessary amendments have been made in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, SEBI (Merchant Bankers) Regulations, 1992, SEBI (Foreign Institutional Investors) Regulations, 1995, SEBI (Venture Capital Funds) Regulations, 1996, SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and SEBI (Stock Brokers and Sub-brokers) Regulations, 1992. Complete text of the said amendments is available on the SEBI website, [www.sebi.gov.in](http://www.sebi.gov.in). Salient features of those amendments are as under:

- (a) An issuer whose post -issue face value capital does not exceed ten crore rupees shall make Initial Public Offer of specified securities in terms of Chapter XA of the Securities and Exchange Board of India



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(Issue of Capital and Disclosure Requirements) Regulations, 2009  
(ICDR Regulations).

- (b) An issuer listed on a SME exchange and whose post- issue face value capital pursuant to further issue of capital does not exceed ten crore rupees shall make further issue of specified securities in terms of Chapter XA of the ICDR Regulations.
- (c) An issuer having post -issue face value capital between ten crore rupees and twenty five crore rupees may make Initial Public Offer and further issue of specified securities in terms of Chapter XA of the ICDR Regulations.
- (d) An issuer making issue of specified securities in terms of Chapter XA of the ICDR Regulations shall be required to list its entire specified securities on the SME exchange.
- (e) An issuer making issue of specified securities in terms of Chapter XA of the ICDR Regulations shall be exempted from the eligibility requirements as laid down under regulations 25, 26 and 27 of the ICDR Regulations.
- (f) An issuer with post issue face value capital between Rs 10 crore and Rs 25 crore listed on SME exchange can migrate to Main Board, as specified in the ICDR Regulations and vice-versa, provided they meet the listing requirements of the stock exchange where they propose to list the specified securities and have obtained the shareholders approval in the manner specified in the ICDR Regulations.
- (g) An issuer listed on SME exchange proposing to issue further capital pursuant to which their post -issue face value capital may increase beyond Rs. 25 crore shall migrate to the main board, subject to obtaining in-principle approval of the main board before issue of such securities.



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- (h) An issuer making issue of specified securities in terms of Chapter XA of the ICDR Regulations shall file the offer document with SEBI and SME exchange, in respect of proposed issue, through the merchant banker. No observations would be issued by SEBI on the offer documents filed by the Merchant Banker/s. The offer document shall be made available on the websites of SEBI, the issuer, the merchant banker/s and the SME exchange.
- (i) The issue made in terms of Chapter XA of the ICDR Regulations shall be 100% underwritten and the merchant banker/s shall underwrite 15% in their own account. Merchant Banker/s can also enter into agreement with nominated investors to subscribe to the unsubscribed portion of the issue. Such arrangements shall be disclosed in the offer document.
- (j) The merchant banker to the issue will undertake market making through a stock broker who is registered as market maker with the SME exchange. The merchant banker shall be responsible for market making for a minimum period of three years from the date of listing of the specified securities. Further, the merchant bankers can also enter into agreement with nominated investors, as defined under ICDR Regulations, to whom the shares bought or sold during the market making process can be transferred. Such arrangements shall be with the prior approval of the SME exchange and disclosed in the offer document.
- (k) During the compulsory market making period, the promoters holding shall not be eligible for offering to market makers. However, the promoters holding which are not locked-in in terms of the ICDR can be traded on the SME exchange with the prior approval of the SME exchange, in the manner specified by the SEBI. During the compulsory market making period the buyer of shares from the promoters or persons belonging to promoter group of the issuer shall



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not be eligible to offer such shares to market makers.

- (l) Merchant Banker/s who have the responsibility of market making may, at their option, be represented on the board of the issuer subject to agreement with the issuer in this regard.
- (m) The issuer shall stipulate in the offer document, the minimum application size in terms of number of specified securities which shall not be less than one lakh rupees per application.
- (n) A minimum number of 50 (fifty) investors is required at the IPO stage only. There shall be no continuous requirement of minimum number of shareholders.
- (o) A stock broker of the Main Board need not obtain fresh registration for trading on SME platform of such Main Board. Further, no fresh registration needs to be obtained by a sub-broker, where such registered sub-broker is affiliated to stock broker who is eligible to trade on SME platform.

3. It is hereby further clarified that –

- (a) an issuer listed on a recognized stock exchange other than a SME exchange and whose post -issue face value capital pursuant to further issue of securities of the same class does not exceed ten crore rupees will have option to make further issue of specified securities of same class in accordance with Chapter XA of the ICDR Regulations provided that its entire specified securities of the same class shall be listed on the SME exchange.
- (b) In case of migration from SME exchange to main board or vice-versa, in terms of the ICDR Regulations the issuer shall submit an information memorandum to the Stock Exchange where it is migrating to in the format specified by the SME exchange or the Main Board, as the case may be.

However, if migration is on account of further issue of capital through



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an offer document or placement document in terms of ICDR Regulations the issuer shall not file the information memorandum.

4. Further, the Guidelines for market making for the specified securities listed on the SME exchange have also been issued separately through circular no. CIR/MRD/DP/ 14 /2010 dated April 26, 2010. Complete text of the guidelines is available on the SEBI website, [www.sebi.gov.in](http://www.sebi.gov.in).
5. The model listing agreement for listing of specified securities issued or migrated on SME exchange, in terms of Chapter XA of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 have also been issued through separate circular no. CIR/CFD/DIL/6/2010 dated May 17, 2010. Complete text of the model listing agreement is available on the SEBI website, [www.sebi.gov.in](http://www.sebi.gov.in).
6. In view of the above policy decisions, it has been decided to make certain changes in the framework for recognition and supervision of SME exchanges/platforms prescribed on November 05, 2008. Accordingly, in supercession to earlier framework of November 05, 2008, the following framework is hereby specified.
  - A. A company desirous of being recognized as a SME exchange may apply to Market Regulation Department, SEBI, in accordance with the provisions of the Securities Contracts (Regulation) Act, 1956 ( SCRA) read with the provisions of the Securities Contracts (Regulation) Rules, 1957 (the SCRR), subject to the applicant fulfilling the following conditions:
    - (i) It is a corporatised and demutualised entity and is compliant with requirements of maintaining public shareholding and shareholding restrictions in accordance with Chapters II and III of the Securities Contracts (Regulation) (Manner of Increasing and Maintaining Public Shareholding in Recognised Stock Exchanges) Regulations, 2006;



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- (ii) It has a balance sheet network of atleast Rs. 100 crores;
- (iii) It shall have nation wide trading terminals and an online screen-based trading system, a suitable Business Continuity Plan including a disaster recovery site;
- (iv) It shall have an online surveillance capability which monitors positions, prices and volumes in real time so as to check market manipulation;
- (v) It shall have adequate arbitration and investor grievances redressal mechanism operative from all the four regions of the country.
- (vi) It shall have adequate inspection capability;
- (vii) It shall have the same risk management system and surveillance system as are required for cash market segment of a recognised stock exchange;
- (viii) Information about trades, quantities, and quotes shall be disseminated by the recognized stock exchange in real time to at least two information vending networks which are accessible to investors in the country;
- (ix) The trading system of the stock exchange may be quote driven or a hybrid of quote driven and order driven. The settlement system in the stock exchange shall be the same as that of the cash market of a recognised stock exchange;
- (x) The clearing function of the stock exchange shall be performed by a clearing corporation/ clearing house;
- (xi) The minimum lot size for trading on the stock exchange shall be one lakh rupees.

B. The above eligibility criteria shall *mutatis mutandis* apply to recognised stock exchanges having nation wide trading terminals and which desires to set up a trading platform for listing of the specified securities issued in terms of Chapter XA of the Securities and Exchange Board of



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India (Issue of Capital and Disclosure Requirements) Regulations, 2009. Such recognised stock exchange shall file an application demonstrating its compliance with the conditions mentioned in sub-para (i) to (xi) of para 6 above alongwith the proposed Rules, Regulations and Byelaws for the SME platform. Such a platform can be operationalised by the recognised stock exchange only after obtaining prior approval of SEBI.

C. The Stock Exchanges are advised to:

- a. make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision.
- b. bring the provisions of this circular to the notice of the member brokers/clearing members of the Exchange and also to disseminate the same on the website.

D. This circular is issued under Section 11 of the Securities and Exchange Board of India Act 1992, read with Section 4 of the Securities Contracts (Regulation) Act, 1956.

Yours faithfully,

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