PART III - SECTION 4

NEW DELHI, OCTOBER 03, 2018

SECURITIES AND EXCHANGE BOARD OF INDIA

NOTIFICATION

Mumbai,the 3rd October, 2018

SECURITIES CONTRACTS (REGULATION)(STOCK EXCHANGES AND CLEARING CORPORATIONS)REGULATIONS, 2018

No.SEBI/LAD-NRO/GN/2018/41.- In exercise of the powers conferred by sections 4, 8A and 31 of the Securities Contracts (Regulation) Act, 1956, read with sections 11 and 30 of the Securities and Exchange Board of India Act, 1992, the Securities and Exchange Board of India hereby makes the following regulations to regulate recognition, ownership and governance in stock exchanges and clearing corporations and matters connected therewith or incidental thereto, namely:—

CHAPTER I
PRELIMINARY

Short title and commencement

1.(1) These regulations may be called the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018.

Definitions

2.(1) In these regulations, unless the context otherwise requires, the terms defined herein shall bear the meanings assigned to them below, and their cognate expressions shall be construed accordingly,-

(a)"Act" means the Securities Contracts (Regulation) Act, 1956 (42 of 1956);

(b)"associate" in relation to a person shall include another person:

(i) who, directly or indirectly, by himself, or in combination with other persons, exercises control over the first person;

(ii)who holds control of atleast twenty percent of the total voting power of the first person;

(iii)who is a holding company or a subsidiary company of the first person

(iv)who is a relative of the first person;

(v)who is a member of a Hindu Undivided Family wherein the first person is also a member;

(vi)such other cases where the Board is of the view that a person shall be considered as an associate based on the facts and factors including the extent of control, independence, conflict of interest;

(c)"Board" means the Securities and Exchange Board of India established under the provisions of section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992);

(d)"clearing corporation" means an entity that is established to undertake the activity of clearing and settlement of trades in securities or other instruments or products that are dealt with or traded on a recognized stock exchange and includes a clearing house;

(e)“clearing member” means a person having clearing rights in any recognized clearing corporation and includes a clearing member as defined in clause (ae) of sub-regulation (1) of Regulation 2 of the Securities and Exchange Board of India (Stock Brokers and Sub- Brokers) Regulations, 1992

(f)"company" shall mean a company as defined in section 3 of the Companies Act, 2013;

[1](***)

(h)"control" shall have the same meaning as assigned to it under clause (e) of sub-regulation (1) of regulation 2 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 or any modification thereof;

(i)"governing board" means the board of directors of a recognised stock exchange or a recognised clearing corporation;

(j)"key management personnel" includes a person serving as head of any department or in such senior executive position that stands higher in hierarchy to the head(s) of the department(s) in the recognised stock exchange or the recognised clearing corporation, or any person who directly reports to chief executive officer or to the director on the governing board of the recognised stock exchange or recognised clearing corporation, or any person upto two levels below the chief executive officer or managing director, or any other person as may be identified by its Nomination and Remuneration Committee;

[1]Clause (g) omitted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.r.e.f. 03-10-2018. Prior to its omission, it read as "(g) "commodity derivatives exchange" means a recognized stock exchange which assists, regulates or controls the business of buying, selling or dealing in commodity derivatives and option in securities with the prior approval of the Board."

(k)"netting" means the determination by clearing corporation of net payment or delivery obligations of the clearing members of a recognised clearing corporation by setting off or adjustment of the inter- se obligations or claims arising out of buying and selling of securities, including the claims and obligations arising out of the determination by the clearing corporation or stock exchange, on the insolvency, winding-up, liquidation or resolution of any clearing member or trading member or client or such other circumstances as the clearing corporation may specify in its bye-laws, of the transactions admitted for settlement at a future date, so that only a net claim be demanded, or a net obligation be owed;

(l) "novation" means the act of one or more recognised clearing corporations interposing between the parties of every trade, so as to be a legal counterparty;

(m) "persons acting in concert" in the context of acquisition or holding of shares or voting rights or control shall *mutatis mutandis* have the same meaning as assigned to it in clause (q) of sub-regulation (1) of regulation 2 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 or any amendments thereof;

(n)"public" includes any member or section of the public but does not include any trading member or clearing member or their associates and agents;

(o)"public interest director" means an independent director representing the interests of investors in securities market and who is not having any association, directly or indirectly, which in the opinion of the Board, is in conflict with his role;

(p)"recognised clearing corporation" means a clearing corporation which is recognised by the Board under section 4 read with section 8A of the Act;

(q)"recognised stock exchange" means a stock exchange which is recognized by the Board under section 4 of the Act.

(r)"regulatory department" means a department of a recognised stock exchange or a recognised clearing corporation which is entrusted with regulatory powers and duties and includes such department as may be specified by the Board;

(s)"rules" means the Securities Contracts (Regulations) Rules, 1957;

(t)"shareholder director" means a director who represents the interest of shareholders, and elected or nominated by such shareholders who are not trading members or clearing members, as the case may be, or their associates and agents;

(u)"trading member" means a person having trading rights in any recognized stock exchange and includes a stock broker.

(2) Words and expressions used and not defined in these regulations but defined in the Act, the Companies Act, 2013, the Securities and Exchange Board of India Act, 1992, the

Depositories Act, 1996 or any rules or regulations made thereunder shall have the same meanings respectively assigned to them in those Acts, rules or regulations made thereunder or any statutory modification or re-enactment thereto, as the case may be.

CHAPTER II

RECOGNITION OF STOCK EXCHANGES AND CLEARING CORPORATIONS

Obligation to seek recognition

3.No person shall conduct, organise or assist in organising any stock exchange or clearing corporation unless he has obtained recognition from the Board in accordance with the Act, rules and these regulations:

Application for recognition

4.Subject to compliance with the provisions of Act, rules and these regulations, an application for recognition as a stock exchange shall be submitted to the Board in Form A as prescribed under rule 3 of the rules and an application for recognition as a clearing corporation shall be submitted to Board in Form A as specified in Schedule - I of these regulations.

Fee for application

5. An applicant seeking recognition as a stock exchange shall pay the application fee in terms of rule 4 of the rules and an applicant seeking recognition as a clearing corporation shall also pay the application fee as payable by a stock exchange.

Documents and particulars for application

6. An application for recognition as a stock exchange or a clearing corporation, as the case may be, shall be accompanied by the copy of the memorandum of association, articles of association, bye-laws and other documents as provided in sections 3 and 4 of the Act, rule 5 of the rules and these regulations.

Consideration of grant of recognition

7.(1) The application under regulation 4 shall be governed by the provisions of the Act, rules and these regulations.

(2) An applicant seeking recognition as a stock exchange or clearing corporation shall comply with the following conditions, namely :—

(a)the applicant is a company limited by shares;

(b)the applicant is demutualised;

(c)the applicant, its directors and its shareholders who hold or intend to hold shares, are fit and proper persons as specified in regulation 20;

(d)the applicant satisfies the requirements relating to the ownership and governance structure specified in these regulations;

(e)the applicant satisfies the networth requirements specified in these regulations;

(f)the applicant satisfies the requisite capability including its financial capacity, functional expertise and infrastructure.

Explanation.—For the purposes of this sub-regulation, the term "demutualised" means that the ownership and management of the applicant is segregated from the trading rights or clearing rights, as the case may be, in terms of these regulations.

(3) An applicant seeking recognition as a stock exchange shall, in addition to the conditions as specified in sub-regulations (1) and (2), comply with the following conditions, namely:—

(a)the applicant has the necessary infrastructure for the orderly execution of trades;

(b)the applicant has an online screen-based trading system;

(c)the applicant has an online surveillance capability which monitors positions, prices and volumes in real time so as to ensure market integrity;

(d)the applicant has adequate infrastructure to list securities for trading on its platform, wherever applicable;

(e)the applicant has necessary capability to have a nationwide network of trading members and has adequate facility to admit and regulate its members;

(f)the applicant has made necessary arrangements to establish connectivity with its trading members and clearing corporation;

(g)the applicant has adequate Investor Protection Fund and Investor Services Fund;

(h)the applicant has adequate investor grievances redressal mechanism and arbitration mechanism to resolve disputes arising out of trades and its settlement;

(i)the applicant has the facility to disseminate information about trades, quantities and quotes in real time to at least two information vending networks which are accessible to investors in the country;

(j)the applicant has adequate systems' capacity supported by a business continuity plan including a disaster recovery site;

(k)the applicant has in its employment, sufficient number of persons having adequate professional and other relevant experience;

(l)the business feasibility plan has been appraised by a reputed agency having expertise in securities market; and

(m)any other conditions as may be specified by the Board.

(4) An applicant seeking recognition as a clearing corporation shall, in addition to the conditions as specified in sub-regulations (1) and (2), comply with the following conditions, namely:—

(a)the applicant has necessary infrastructure to ensure timely clearing and settlement of trades;

(b)the applicant has adequate risk management mechanism;

(c)the applicant has a settlement procedure including netting, novation and guarantee for settlement of trades in place, which is in accordance with the manner specified by the Board;

(d)the applicant has the capacity to establish a fund to guarantee settlement of trades;

(e)the applicant has necessary capability to have a wide network of clearing members and has adequate facility to admit and regulate its members;

(f)the applicant has established connectivity with the depositories, clearing banks, stock exchange and clearing members;

(g)the applicant has adequate systems' capacity for on-line/real time risk management of trades cleared and settled and is supported by a suitable business continuity plan including a disaster recovery site;

(h)the applicant has in its employment, sufficient number of persons having adequate professional and other relevant experience to the satisfaction of the Board;

(i)the applicant has the necessary arrangements in place for resolving disputes and redressal of grievances arising out of clearing and settlement of trades;

(j)the applicant has an agreement with a depository and with a recognised stock exchange in respect of clearing and settlement of the trades;

(k)the business feasibility plan has been appraised by a reputed agency having expertise in securities market; and

(l)any other conditions as may be specified by the Board.

(5) The Board may, on being satisfied with the capability of the applicant to comply with the conditions laid down in this regulation, grant in-principle approval to the applicant which shall be valid for a period of one year.

Provided that the Board may, upon sufficient cause shown by the applicant, extend the validity of in-principle approval for a further period not exceeding six months or any other period as specified by the Board.

(6) An application for recognition shall be made in the manner as specified under PART –D of Schedule – II of these regulations.

Power to make inquiries and call for information

8. The Board may, before granting recognition to a stock exchange or clearing corporation, make inquiries and require such further information or document to be furnished, as it may deem necessary.

Grant of recognition

9.(1) The Board may, after considering the application under regulation 4 and on being satisfied that the applicant has complied with the conditions laid down in regulation 7 and is eligible to act as a recognised stock exchange or a recognised clearing corporation, as the case may be, grant recognition to the applicant in terms of section 4 of the Act, in the interest of the securities market.

(2)The recognition granted to a stock exchange under sub-regulation (1) shall be in Form B of the rules.

(3)The recognition granted to a clearing corporation shall be in Form B of Schedule-I of these regulations.

(4)The recognised stock exchange and the recognised clearing corporation shall comply with such other conditions, including those with regard to the nature of securities to be dealt with, as may be imposed by the Board from time to time.

Period of recognition

10.(1) The period of recognition granted to a stock exchange shall be as per rule 6 of the rules.

(2) The recognition granted to a clearing corporation, unless granted on a permanent basis, shall be for such period not less than one year as may be specified by the Board.

Regulatory fee

11.(1) Every recognised stock exchange shall pay the regulatory fee in terms of Securities and Exchange Board of India (Regulatory Fee on Stock Exchanges) Regulations, 2006.

(2)Every recognised clearing corporation shall pay the regulatory fee as the Board may specify.

Renewal of recognition

12.(1) The provisions of these regulations, as applicable to the grant of recognition to a stock exchange, shall in addition to rule 7 of the rules also apply in relation to an application for renewal of recognition of a recognised stock exchange.

(2)A recognised clearing corporation desirous of renewal of recognition shall make an application to the Board in Form A of Schedule-I of these regulations and such application shall reach the Board atleast three months prior to the date of expiry of the recognition.

(3)The provisions of these regulations, as applicable to the grant of recognition to a clearing corporation, shall also apply in relation to an application for renewal of recognition of a recognised clearing corporation.

(4)An applicant seeking renewal of recognition as a stock exchange shall pay fee in terms of rule 7 of the rules, and an applicant seeking renewal of recognition as a clearing corporation shall also pay fee as payable by a stock exchange.

(5)The recognised stock exchange and recognised clearing corporation shall comply with the applicable conditions specified in sub-regulation (3) and sub-regulation (4) of regulation 7, as the case may be, on a continuous basis.

Withdrawal of recognition

13. The recognition granted to a stock exchange or a clearing corporation may be withdrawn in the manner provided under section 5 of the Act.

CHAPTER III

NETWORTH OF STOCK EXCHANGE AND CLEARING CORPORATION

Net worth requirements

14. (1) Every recognised stock exchange shall have a minimum networth of one hundred crore rupees at all times:

(2) Every applicant seeking recognition as a clearing corporation under regulation 4 shall have a minimum networth of one hundred crore rupees:

(3)(a) Every recognized clearing corporation, on commencement of operations, shall, on an ongoing basis, maintain capital including retained earnings and reserves, as may be specified by the Board from time to time, to adequately cover counterparty credit risk, business risk, legal and operational risk.

(b) Every recognized clearing corporation shall hold additional capital to cover costs required for orderly wind-down or recovery of operations.

(c) Every recognized clearing corporation shall maintain, at all times, a minimum net worth of one hundred crore rupees or capital as determined under regulation 14(3)(a) and 14(3)(b), whichever is higher.

(4)A recognised stock exchange or a recognised clearing corporation shall not distribute profits in any manner to its shareholders until the networth specified under sub-regulations (1), (2) and (3), as the case may be, is achieved.

(5)Every recognised stock exchange or recognised clearing corporation shall submit an audited networth certificate from the statutory auditor on a yearly basis by the thirtieth day of September of every year for the preceding financial year.

Explanation I.—For the purposes of this regulation, 'networth of a stock exchange' means the aggregate value of paid up equity share capital plus free reserves (excluding statutory funds, benefit funds and reserves created out of revaluation) reduced by the investments in businesses, whether related or unrelated, aggregate value of accumulated losses and deferred expenditure not written off, including miscellaneous expenses not written off.

Explanation II.—For the purposes of this regulation, 'networth of a clearing corporation' means the aggregate value of its liquid assets calculated in the manner as specified by the Board from time to time.

CHAPTER IV

OWNERSHIP OF STOCK EXCHANGES AND CLEARING CORPORATIONS

Definitions

15. For the purposes of this Chapter:

(1)"banking company" shall have the same meaning as assigned to it in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);

(2)"insurance company" shall have the same meaning as assigned to it in sub-section (8) of section 2 of the Insurance Act, 1938 (4 of 1938);

(3)"person resident in India" shall have the same meaning as assigned to it in clause (v) of section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999);

(4)"person resident outside India" shall have the same meaning as assigned to it in clause (w) of section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999).

(5)“public financial institution” shall have the same meaning as assigned to it in sub-section (72) of section 2 of the Companies Act, 2013

General conditions

16.(1) Save as otherwise provided in these regulations, the shareholding or voting rights of any person in a recognised stock exchange or a recognised clearing corporation shall not exceed the limits specified in this Chapter at any point of time.

(2)The shareholding as specified in this Chapter shall include any instrument owned or controlled, directly or indirectly, that provides for entitlement to equity or rights over equity at any future date.

Shareholding in a recognised stock exchange

17. (1) The public holding in a recognised stock exchange shall not be less than fifty one per cent of the paid up equity share capital of that recognised stock exchange.

(2)No person resident in India shall at any time, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than five per cent of the paid up equity share capital in a recognised stock exchange:

Provided that,—

(a)a stock exchange;

(b)a depository;

(c)a banking company;

(d)an insurance company; and

(e)a public financial institution,

may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, upto fifteen per cent of the paid up equity share capital of a recognised stock exchange.

(3)No person resident outside India, directly or indirectly, either individually or together with persons acting in concert, shall acquire or hold more than five per cent of the paid up equity share capital in a recognised stock exchange

Provided that,-

(a)a foreign stock exchange;

(b)a foreign depository;

(c)a foreign banking company;

(d)a foreign insurance company;

(e)a foreign commodity derivatives exchange; and

(f)a bilateral or multilateral financial institution approved by the Central Government,

may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, upto fifteen per cent of the paid up equity share capital of a recognised stock exchange.

Explanation.—For the purposes of this proviso, the persons referred to in clauses (a) to (f) shall mean persons recognised/ incorporated outside India.

(4)Subject to the limits as otherwise prescribed by the Central Government from time to time, the combined holding of all persons resident outside India in the paid up equity share capital of a recognised stock exchange shall not exceed, at any time, forty-nine per cent of its total paid up equity share capital

(5)No clearing corporation shall hold any right, stake or interest, of whatsoever nature, in any recognised stock exchange.

Shareholding in a recognised clearing corporation

18. (1) The capital structure in a recognized clearing corporation shall be such that atleast fifty one percent of its paid up equity share capital shall always be held by one or more recognized stock exchange(s):

Provided that no recognised stock exchange shall, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than fifteen per cent of the paid up equity share capital in more than one recognised clearing corporation.

(2)No person resident in India, except a recognised stock exchange as permitted in sub-regulation (1), shall at any time, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than five per cent. of the paid up equity share capital in a recognised clearing corporation:

Provided that,—

(a)a depository;

(b)a banking company;

(c)an insurance company; and

(d)a public financial institution,

may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, upto fifteen per cent of the paid up equity share capital of a recognised clearing corporation.

(3) No person resident outside India shall, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than five per cent of the paid up equity share capital in a recognised clearing corporation.

Provided that,-

(a)a foreign stock exchange;

(b)a foreign depository;
(c)a foreign banking company;
(d)a foreign insurance company;
(e)a foreign commodity derivatives exchange; and
(f) a bilateral or multilateral financial institution approved by the Central Government,

may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, upto fifteen per cent of the paid up equity share capital of a recognized clearing corporation.

Explanation.—For the purposes of this proviso, the persons referred to in clauses (a) to (f) shall mean persons recognised/ incorporated outside India.

(4) Subject to the limits as otherwise prescribed by the Central Government from time to time, the combined holding of all persons resident outside India in the paid up equity share capital of a recognised clearing corporation shall not exceed, at any time, forty-nine per cent of its total paid up equity share capital.

Eligibility for acquiring or holding shares

19. (1) No person shall, directly or indirectly, acquire or hold any equity shares or voting rights of a recognised stock exchange or recognized clearing corporation unless he is a fit and proper person:

Provided that the onus shall be on the recognised stock exchange/recognised clearing corporation to ensure that all its shareholders are fit and proper persons:

Provided further that such a requirement to ensure that all its shareholders are fit and proper persons shall not be applicable to a listed recognized stock exchange for shareholding of a person who directly or indirectly, acquires or holds less than two percent equity shares or voting rights of such listed recognized stock exchange.

(2)Any person who acquires equity shares or voting rights, in a recognised stock exchange or recognized clearing corporation, directly or indirectly, either individually or together with persons acting in concert, that entitles the person(s) so acquiring to exercise any voting rights in the range of two percent to five per cent, shall seek approval of the Board within fifteen days of such acquisition.

(3)A person eligible to acquire or hold more than five per cent of the paid up equity share capital under sub-regulation (2) and (3) of regulation 17 and sub-regulation (2) and (3) of regulation 18 may acquire or hold more than five per cent of the paid up equity share capital of a recognised stock exchange or a recognised clearing corporation only if he has obtained prior approval of the Board.

(4)The application for seeking approval in terms of sub-regulation (2) or sub-regulation (3) of this regulation shall be made to the Board in the manner specified at PART –F of Schedule – II of these regulations through the concerned stock exchange / clearing corporation.

(5)The stock exchange / clearing corporation shall verify the declarations/ undertakings given by the shareholders under sub-regulation (4) and forward the application along with its recommendation for approval to the Board.

(6)If approval under sub-regulation (2) is not granted by the Board to any person, such person shall forthwith divest his entire shareholding in the recognised stock exchange / recognised clearing corporation.

(7)Any person holding two per cent. or more of the paid up equity share capital in a recognised stock exchange or a recognised clearing corporation, as the case may be,

shall file a declaration within fifteen days from the end of every financial year to the recognised stock exchange or recognised clearing corporation, as the case may be, that he complies with the fit and proper criteria provided in these regulations.

Monitoring of shareholding limits

19A. The recognised stock exchange / recognised clearing corporation shall put in place a monitoring mechanism as specified in Part G of Schedule – II of these regulations to ensure compliance with the shareholding conditions specified in these regulations at all times.

Requirement and criteria of fit and proper

20. (1) The recognised stock exchange/recognised clearing corporation shall ensure that all its directors and key management personnel are fit and proper persons at all times.

(2) For the purposes of these regulations, a person shall be deemed to be a fit and proper person if—

(a) such person has a general reputation and record of fairness and integrity, including but not limited to—

(i) financial integrity;

(ii) good reputation and character; and

(iii) honesty;

(b) such person has not incurred any of the following disqualifications—

(i) the person or any of its whole time directors or managing partners, has been convicted by a court for any offence involving moral turpitude or any economic offence or any offence against the securities laws;

(ii) an order for winding up has been passed against the person;

(iii) the person, or any of its whole time directors or managing partners, has been declared insolvent and has not been discharged;

(iv) an order, restraining, prohibiting or debarring the person or any of its whole time directors or managing partners, from dealing in securities or from accessing the securities market, has been passed by the Board or any other regulatory authority and a period of three years from the date of the expiry of the period specified in the order has not elapsed;

(v) any other order against the person, or any of its whole time directors or managing partners, which has a bearing on the securities market, has been passed by the Board or any other regulatory authority, and a period of three years from the date of the order has not elapsed;

(vi) the Board has initiated recovery proceedings under the SEBI Act, 1992 and are pending;

(vii) the person has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force;

(viii) the person is financially not sound or has been categorized as a willful defaulter; and

(ix) any other disqualification as specified by the Board.

(3) If any question arises on the decision of a recognised stock exchange or recognized clearing corporation as to whether a person is a fit and proper person, the Board's decision on such question shall be final.

Disclosure of shareholding

21. (1) Without prejudice to the provisions of the Act, rules and these regulations, the recognised stock exchange(s) and the recognised clearing corporation(s) shall disclose to the Board, in the format specified by the Board, their shareholding pattern on a quarterly basis within fifteen days from the end of each quarter, including therein the following: —

(a)the names of the ten largest shareholders along with the number and percentage of shares held by them;

(b)the names of the shareholders falling under regulations 17 and 18 who had acquired shares in that quarter.

(2) A recognised stock exchange and a recognised clearing corporation shall monitor and ensure compliance with this Chapter at all times.

Record keeping

22. In addition to the requirements under other laws in force, a recognised stock exchange and recognised clearing corporation shall maintain and preserve all the books, registers, other documents and records relating to the issue or transfer of its securities for a period of not less than eight years.

CHAPTER V
GOVERNANCE OF STOCK EXCHANGES AND CLEARING CORPORATIONS

Composition of the governing board

23. (1) The governing board of every recognised stock exchange and recognised clearing corporation shall include:

(a)shareholder directors;

(b) public interest directors; and,

(c)managing director.

(2)Subject to the prior approval of the Board, the chairperson shall be elected by the governing board from amongst the public interest directors.

(3)The number of public interest directors shall not be less than the number of shareholder directors on the governing board of a recognised stock exchange and recognized Clearing Corporation.

(4)The managing director shall be included in the category of shareholder directors.

(5)Any employee of a recognised stock exchange or recognised clearing corporation may be appointed on the governing board in addition to the managing director and such director shall be deemed to be a shareholder director.

(6)No trading member or clearing member or their associates and agents, irrespective of the stock exchange / clearing corporation of which they are members, shall be on the governing board of any recognised stock exchange or recognised clearing corporation.

(7)For the purposes of sub-regulation (6) above, a person who is a director in an entity, that itself is a trading member or clearing member or has associate(s) as trading member(s) or clearing member(s) shall be deemed to be a clearing member or trading member:

Provided a person shall not be deemed to be clearing member and / or trading member or their associate for the purpose of sub-regulation (6), if he/she is on the board of a public financial institution or bank which is in public sector, or which either has no identifiable ultimate promoter, or the ultimate promoter is in public

sector or has well diversified shareholding , and such Public Financial Institution or Bank or its associate is a clearing member and / or trading member:

Provided further that the independent directors of the associates of Public Financial Institution or Bank in public sector, who are clearing member and/or trading member and where the majority shareholding is that of such public Financial institution or bank in the public sector, shall not be deemed to be a clearing member and / or trading member for the purpose of sub-regulation (6).

(8)The appointment of director shall be subject to the fulfillment of other requirements and satisfaction of the Board.

(9)A recognised stock exchange and recognised clearing corporation, shall monitor and ensure the compliance of sub-regulation (6) on continuous basis, to ensure that directors appointed, on their governing board, do not get associated with trading member or clearing member after approval of appointment.

(10)The number of public interest directors shall not be less than the number of shareholder directors to constitute the quorum for the meeting of the governing board.

(11)The voting on a resolution in the meeting of the governing board shall be valid only when the number of public interest directors that have cast their vote on such resolution is equal to more than the number of shareholder directors who have cast their vote on such resolution.

(12)The casting vote in the meetings of the governing board of a recognised stock exchange or a recognised clearing corporation shall be with the chairperson of the governing board.

(13)No foreign portfolio investor shall have any representation in the governing board of a recognised stock exchange or a recognised clearing corporation.

Conditions of appointment of directors

24. (1) The appointment and re-appointment of all shareholder directors on the governing board of every recognised stock exchange or recognised clearing corporation shall be with the prior approval of the Board.

(2)The public interest directors on the governing board of the recognised stock exchange(s) and the recognised clearing corporation(s) shall be nominated by the Board.

(3)Public interest directors shall be nominated for a term of three years, extendable by another term of three years, subject to performance review in the manner as may be specified by the Board:

Provided that post the expiry of term(s) at the recognized stock exchange or the recognized clearing corporation, a public interest director may be nominated for a further term of three years in other recognized clearing corporation or recognized stock exchange, or a depository, only after a cooling-off period of one year:

Provided further that a person may be nominated as a public interest director for a maximum of three terms across recognized stock exchanges / recognized clearing corporations / depositories, subject to a maximum age limit of seventy five years.

(4)A public interest directors on the board of a recognized stock exchange or a recognized clearing corporation shall not act simultaneously as director on the board of its subsidiary or on the board of any other recognized stock exchange or recognized clearing corporation or depository or on the board of subsidiary of such other recognized stock exchange or recognized clearing corporation or depository.

(5)A public interest director on the board of a recognized stock exchange or a recognized clearing corporation shall keep its governing board apprised of any conflict of interest, which may arise as a result of the public interest director providing services, either directly or indirectly, to any company listed or traded on that recognized stock exchange, to any trading member or clearing member or their associates and agents

(6)No public interest director shall become a shareholder director unless there is a cooling-off period of three years after ceasing to be a public interest director.

(7)No public interest director on the board of a recognized stock exchange or a recognized clearing corporation, shall become a director on the board of subsidiary of that recognized stock exchange or recognized clearing corporation, as the case may be, unless there is a cooling-off period of three years after ceasing to be a public interest director.

(8)A public interest director on the board of a recognized stock exchange or a recognized clearing corporation shall not act simultaneously as a member on more than five committees of that recognized stock exchange or a recognized clearing corporation.

(9)Public interest directors shall be remunerated only by way of sitting fees as admissible to independent directors in the Companies Act, 2013.

(10)If any issue arises as to whether an assignment or position of a public interest director is in conflict with his role, the Board's decision shall be final.

(11)The application for appointment of Directors shall be made in the manner as specified under PART –H of Schedule – II of these regulations.

Appointment of managing director

25.(1) The appointment, renewal of appointment and termination of service of the managing director of a recognised stock exchange or a recognised clearing corporation shall be subject to the prior approval of the Board.

(2)Every recognised stock exchange or recognised clearing corporation shall, subject to the guidelines issued by the Board from time to time, determine the qualification, manner of appointment, terms and conditions of appointment and other procedural formalities associated with the selection/ appointment of the managing director.

(3)The appointment of the managing director shall be for a term not exceeding five years:

Provided that post the completion of the first term, the recognized stock exchange or the recognized clearing corporation shall conduct the appointment process for appointment of the Managing Director afresh:

Provided further that a person may be appointed as the Managing Director by the recognized stock exchange or recognized clearing corporation for a maximum of two terms not exceeding five years each, subject to a maximum age limit of sixty five years.

(4)The Managing director of a recognised stock exchange or a recognised clearing corporation shall not—

(a)be a shareholder or an associate of a shareholder of a recognised stock exchange or recognised clearing corporation or shareholder of an associate of a recognised stock exchange or recognised clearing corporation, as the case may be;

(b)be a trading member or a clearing member or his associate and agent or shareholder of a trading member or clearing member or shareholder of an associate and agent of a trading member or a clearing member; or

(c)hold any position concurrently in the subsidiary of a recognised stock exchange or a recognised clearing corporation or in any other entity associated with a recognised stock exchange or a recognised clearing corporation:

Provided that the Managing Director of a recognised stock exchange may be appointed on the governing board, but not as managing director, of the subsidiary of a recognised stock exchange or a recognised clearing corporation.

(5)The Managing Director shall be liable for removal or termination of services by the governing board of the recognised stock exchange or recognised clearing corporation with the prior approval of the Board for failure to give effect to the directions, guidelines and other orders issued by the Board or the rules, the articles of association, bye-laws and regulations of the recognised stock exchange or the recognised clearing corporation.

(6)The Board may *suo motu* remove or terminate the appointment of the managing director if deemed fit in the interest of securities market:

Provided that no managing director shall be removed unless he has been given a reasonable opportunity of being heard.

(7)The conditions specified under this regulation for appointment of directors shall be applicable to a person holding position as managing director in a stock exchange or a clearing corporation on the date of commencement of these regulations.

Explanation: For the purpose of sub-regulation (7), the applicability shall be determined post the completion of the existing term and the prior term(s) completed by a managing director on the governing board of a recognized stock exchange or a recognized clearing corporation shall also be considered while determining the eligibility.

Code of Conduct for directors and key management personnel

26. (1) Every director of a recognised stock exchange and a recognised clearing corporation shall abide by the Code of Conduct specified under Part- A of Schedule- II of these regulations.

(2) Every director and key management personnel of a recognised stock exchange and a recognised clearing corporation shall abide by the Code of Ethics specified under Part- B of Schedule- II of these regulations.

(3) Every director and key management personnel of a recognised stock exchange and a recognised clearing corporation shall be a fit and proper person as described in regulation 20.

(4) The Board may, for any failure by the directors to abide by these regulations or the Code of Conduct or Code of Ethics or in case of any conflict of interest, either upon a reference from the recognised stock exchange or the recognised clearing corporation or *suo motu,* take appropriate action including removal or termination of the appointment of any director, after providing him a reasonable opportunity of being heard.

Compensation and tenure of key management personnel

27. (1) A recognised stock exchange or a recognised clearing corporation shall constitute a Nomination and Remuneration Committee comprising a majority of public interest directors and chaired by a public interest director.

(2)The Nomination and Remuneration Committee shall determine the compensation of key management personnel in terms of a compensation policy.

(3)The compensation policy shall be in accordance with the norms for compensation policy specified under PART – I of Schedule – II of these regulations.

(4)The compensation payable to the managing director shall be as approved by the Board and the terms and conditions of the compensation of the managing director shall not be changed without prior approval of the Board.

(5)The compensation given to the key management personnel shall be disclosed in the report of the recognised stock exchange or recognised clearing corporation under section 134 of the Companies Act, 2013.

(6)The report under sub-regulation (5) shall comprise of ratio of compensation paid to each key management personnel, vis-a-vis. median of compensation paid to all employees of the recognized stock exchange or recognized clearing corporation.

(7)The tenure of a key management personnel, other than a director, shall be for a fixed period, as may be decided by the Nomination and Remuneration Committee.

Explanation: For the purpose of sub-regulation (7), the tenure refers to the period of posting as key management personnel in a regulatory department, which shall be for a fixed period

Segregation of regulatory departments

28. The recognised stock exchange and recognised clearing corporation shall segregate its regulatory departments from other departments in the manner specified in Part - C of Schedule - II of these regulations.

Statutory committees

29.(1) Every recognised stock exchange / recognized clearing corporation shall constitute the committees as per sub-regulation (2) and sub-regulation (3).

(2)Functional committee, comprising of:

(a)[2][Member and Core Settlement Guarantee Fund committee;]

(b)[3][*] grievance redressal committee; and

(c)Nomination and remuneration committee.

(3)Oversight committees, comprising of:

(a)Standing committee on technology;

(b)Advisory committee;

(c)Regulatory oversight committee; and

(d)Risk management committee.

(4)The composition, quorum and functions of the committees under sub-regulation (2) and sub-regulation (3) shall be in the manner as specified by the Board from time to time.

Appointment of compliance officer

30.(1) Every recognised stock exchange and recognised clearing corporation shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, the Securities and Exchange Board of India Act, 1992, rules, regulations, or directions issued thereunder and for the redressal of investors' grievances.

(2) The compliance officer shall immediately and independently, report to the Board any non- compliance of any provision stated in sub-regulation (1) observed by him.

Contribution to the Settlement Guarantee Fund

31. (1) The contribution to the Fund as specified in regulation 37 shall be made by the recognised stock exchange, the recognised clearing corporation and the clearing members, in the manner as may be specified by the Board from time to time.

[2]Substituted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019. Prior to its substitution, it read as "(a) Member selection committee;"

[3]Omitted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019. Prior to its omission, it read as "Investor".

(2) In case of shortfall in the Fund, the recognised clearing corporation and the recognised stock exchange shall replenish the Fund to the threshold level as may be specified by the Board from time to time.

Transfer of penalties

32. Penalties levied by recognised stock exchange or recognised clearing corporation shall be credited to its Investor Protection Fund or the Fund as specified in regulation 37, as the case may be.

Disclosure and corporate governance norms

33. (1) The disclosure requirements and corporate governance norms as specified for listed companies shall *mutatis mutandis* apply to a recognised stock exchange and a recognised clearing corporation.

(2) The governing board of a recognised stock exchange or a recognised clearing corporation shall confirm compliance of sub-regulation (1) in writing on half yearly basis.

(3) Recognised stock exchange and a recognised clearing corporation shall disclose resources committed towards strengthening regulatory functions and towards ensuring compliance with regulatory requirements applicable to the recognised stock exchange or recognised clearing corporation, as the case may be, backed by an activity based accounting in the report under section 134 of the Companies Act, 2013.

(4) The fees and charges levied by a recognised stock exchange or a recognised clearing corporation shall be placed for review before the Oversight Committee of such recognised stock exchange or recognised clearing corporation.

CHAPTER VI
GENERAL OBLIGATIONS

Clearing and settlement of trades

34. Every recognised stock exchange shall, with effect from the date specified by the Board in this behalf, use the services of recognised clearing corporation(s) for clearing and settlement of its trades.

Agreement between stock exchange and clearing corporation

35.(1) Subject to provisions of sub-regulation (2), a recognised stock exchange shall avail the service of a recognised clearing corporation pursuant to an agreement in writing between them stipulating their rights and obligations, the conditions for admission of securities for clearing and settlement, risk management measures, charges for clearing and settlement and other incidental and consequential matters.

[4][Provided that in case a recognised stock exchange enters into an arrangement with more than one recognised clearing corporation, it shall enter into a multipartite agreement in writing with such recognised clearing corporations to ensure interoperability among the clearing corporations.]

(2) The recognised stock exchange shall extend its arbitration mechanism for settlement of disputes or claims arising out of clearing and settlement of trades executed on such stock exchange.

Admission of securities for clearing and settlement

36.(1) A recognised clearing corporation shall seek approval of the Board before extending its services to any segment of a recognised stock exchange and before admitting any securities for clearing and settlement.

(2) A recognized stock exchange shall not introduce any new segment without the prior approval of the Board.

Fund to guarantee settlement of trades

37.(1) Every recognised clearing corporation shall establish and maintain a Fund by whatever name called, for each segment, to guarantee the settlement of trades executed in respective segment of a recognised stock exchange:

[5][***]

(2)In the event of a clearing member failing to honour his settlement obligations, the Fund shall be utilized to complete the settlement.

(3)The corpus of the Fund shall be adequate to meet the settlement obligations arising on account of failure of clearing member(s).

(4)The sufficiency of the corpus of the Fund shall be tested by way of periodic stress tests, in the manner specified by the Board.

(5)The utilization of the Fund shall be in accordance with the norms specified by the Board.

Utilization of profits and investments

38.(1)The utilization of profits and investments by recognised clearing corporations shall be in accordance with the norms specified by the Board.

[4]Inserted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019.

[5]Omitted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019. Prior to its omission, the proviso read as:

"Provided that in case a recognised stock exchange enters into an arrangement with more than one recognised clearing corporation, it shall enter into a multipartite agreement in writing with such recognised clearing corporations to ensure interoperability among the clearing corporations."

(2)The recognized stock exchange or recognized clearing corporation shall not carry on any activity whether involving deployment of funds or otherwise without prior approval of the Board:

Provided that prior approval of the Board shall not be required in case of treasury investments if such investments are as per the investment policy approved by the governing board of recognized stock exchange or recognized clearing corporation;

Provided further, that the recognised stock exchange and recognised clearing corporation may engage in activities whether involving deployment of funds or otherwise that are unrelated or not incidental to its activity as a stock exchange or clearing corporation, as the case may be, [6][*] through a separate legal entity and subject to approval of the Board.

Equal, fair and transparent access

39.(1) The recognised clearing corporation shall lay down a policy framework for ensuring that there is no discrimination while rendering clearing and settlement services in settlement of trades executed on shareholder stock exchange(s) and executed on non-shareholder stock exchange(s).

(2)The framework under sub-regulation (1) shall be made available on the website of the clearing corporation and shall provide the basis on which access to clearing and settlement services of the clearing corporation has been provided to a shareholder stock exchange(s) along-with the manner in which the said requirements should be complied by a non-shareholder stock exchange(s) to obtain access to clearing and settlement services.

(3)The recognised clearing corporation and recognised stock exchange shall ensure equal, unrestricted, transparent and fair access to all persons without any bias towards its associates and related entities.

(4)If any issue arises in rendering non-discriminatory access to services of a recognized clearing corporation, the Board's decision shall be final.

Maintenance of books of accounts and records

40.(1) Every recognised stock exchange shall maintain and preserve the books of account and documents as per rule 14 of the rules.

(2) Subject to the provisions of any other law for the time being in force, every recognised clearing corporation shall maintain and preserve the following books of account and documents for a minimum period of eight years, namely:-

(a)Minute books of the meetings of:

(i) governing board;

(ii) any committees of the governing board;

[6]Omitted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019. Prior to its omission, it read as "except".

(b)Record of clearing members showing their full names, addresses and details of bank and depository accounts for settlement purposes;

(c)Transaction records;

(d)Record of security deposits;

(e)Margin deposits book;

(f)Client margin collection details;

(g)Ledgers;

(h)Journals;

(i)Cash book;

(j)Bank account statement;

(k)Such other books of accounts and documents as may be specified by the Board from time to time.

Submission of annual financial statements and returns

41.(1) Every recognised stock exchange and recognised clearing corporation shall furnish to the Board its annual financial statements and returns as per rule 17 and 17A of the rules.

(2) The records as per sub-regulation (1) with respect to the preceding financial year shall be furnished to the Board by the thirtieth of September of every year.

Bye-laws and rules of stock exchanges and clearing corporation

42.(1) A recognised stock exchange and recognised clearing corporation shall, with the prior approval of the Board, make bye-laws for the regulation of contracts and clearing and settlement, as the case may be, as per section 9 of the Act and these regulations.

(2)No memorandum of association, articles of association or any other constitution document, in so far as they relate to matters specified in section 3 of the Act or under these regulations and bye- laws of a recognised stock exchange or a recognised clearing corporation, shall be amended except with prior approval of the Board.

(3)The Bye-laws of the clearing corporation and procedure for submitting amendments to Articles/Rules/Bye-laws [*][7], etc., of a recognised stock exchange/ recognized clearing corporation for approval of the Board shall be made in the manner as specified under PART – E of Schedule – II of these regulations.

Settlement and netting

43.(1) The payment and settlement in respect of a transaction in a recognized stock exchange and recognized clearing corporation shall be determined in accordance with the netting or gross procedure as specified in the bye-laws of such recognized stock exchange and recognized clearing corporation, with the prior approval of the Board

[7]Omitted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019. Prior to its omission, it read as "/Regulations"

(2)Payment and settlement in respect of a transaction between parties referred to in sub-regulation (1), effected under the bye-laws of a recognized stock exchange or recognized clearing corporation, shall be final, irrevocable and binding on such parties.

(3)When a settlement has become final and irrevocable, the right of the recognized stock exchange or the recognized clearing corporation, as the case may be, to appropriate any collaterals or deposits or margins contributed by the trading member, clearing member or client towards its settlement or other obligations in accordance with the bye-laws of the recognised stock exchange or recognized clearing corporation shall take priority over any other liability of or claim against the said trading member, clearing member or client, as the case may be.

Explanation. - For removal of doubts, it is hereby declared that the settlement, whether gross or net, referred to in this regulation is final and irrevocable as soon as the money, securities or other transactions payable as a result of such settlement is determined, whether or not such money, securities or other transactions is actually paid.

[8][Obligation of Clearing Corporation in Commodity Derivatives

43A. Every recognized Clearing Corporation providing clearing and settlement services for commodity derivatives shall ensure guarantee for settlement of trades including good delivery.

Explanation: For the purpose of this regulation, "good delivery" shall mean the delivery of goods that is in proper form to transfer title and is of the quality and quantity as per contract specifications of the concerned exchange.]

Right of Clearing Corporation

44. The right of a recognised clearing corporation(s) to recover the dues from its clearing members, arising from the discharge of their clearing and settlement functions, from the collaterals, deposits and the assets of the clearing members, shall have priority over any other liability of or claim against the clearing members.

[8]Inserted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.r.e.f. 03-10-2018.

CHAPTER VII

LISTING OF SECURITIES

Listing

45. (1) Subject to the provisions of the applicable laws in force, a recognised stock exchange may apply for listing of its securities on any recognised stock exchange, other than itself and its associated stock exchange, if,—

(a) it is compliant with the provisions of these regulations particularly those relating to ownership and governance;

(b)it has completed three years of continuous trading operations immediately preceding the date of application of listing; and

(c)it has obtained approval of the Board:

Provided the Board may specify such conditions as it may deem fit in the interest of the securities market including those in relation to transfer of shares held by any person.

(2)A recognised stock exchange shall not list any securities of its associates.

(3)The securities of a recognised clearing corporation shall not be listed on any stock exchange.

Dematerialization

46. Securities of a recognised stock exchange and a recognised clearing corporation shall be in dematerialised form.

CHAPTER VIII

INSPECTION, ENQUIRIES AND ENFORCEMENT

Power to call for information

47. The Board may from time to time call for any information, documents or records from the recognised stock exchange or the recognised clearing corporation, or their governing board or any shareholder thereof.

Power of inspection

48. (1) The Board may at any time undertake inspection, conduct inquiries and audit of any recognised stock exchange or recognised clearing corporation, any associate of such exchange or clearing corporation, any shareholder of such stock exchange or clearing corporation or any associate and agent of such shareholder.

(2) Where an inspection under sub-regulation (1) is undertaken by the Board, such recognised stock exchange or recognised clearing corporation or shareholder or associate and every manager, director, managing director, chairperson or officer and other employee of such recognised stock exchange, recognised clearing corporation, shareholder or associate shall cooperate with the Board.

Directions by the Board

49. Without prejudice to the exercise of its powers under the provisions of the Act or the Securities and Exchange Board of India Act, 1992 and rules and regulations made thereunder, the Board may, either *suo motu* or on receipt of any information or during pendency of any inspection, inquiry or investigation or on completion thereof, in the interest of public or trade or investors or the securities market, issue such directions as it deems fit, including but not limited to any or all of the following:—

(a)directing a person holding equity shares or rights over equity shares in a recognised stock exchange or recognised clearing corporation in contravention of these regulations to divest his holding, in such manner as may be provided in the direction;

(b)directing transfer of any proceeds or securities to the Investor Protection Fund of a recognised stock exchange or Settlement Guarantee Fund of a recognised clearing corporation;

(c)debarring any recognised stock exchange or recognised clearing corporation, any shareholder of such recognised stock exchange or recognised clearing corporation, or any associate and agent of such shareholder, or any transferee of shares from such shareholder, directors and key management personnel of recognised stock exchange and recognised clearing corporation from accessing the securities market or dealing in securities for such period as may be determined by the Board.

CHAPTER IX

MISCELLANEOUS

Power to remove difficulties

50. In order to remove any difficulties in the interpretation or application of the provisions of these regulations, the Board shall have the power to issue directions through guidance notes or circulars.

Power to specify procedures and issue clarifications

51. For the purposes of implementation of these regulations and matters incidental thereto, the Board may specify norms, procedures, processes, manners or guidelines as specified in these regulations, by way of circulars to recognised stock exchange(s) and recognised clearing corporation(s).

Repeal and savings

52. (1) On and from the commencement of these regulations, the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 and the following circulars, shall stand rescinded:

(a)Circular No. CIR/MRD/DSA/33/2012, dated December 13, 2012 - Procedural norms on Recognitions, Ownership and Governance for Stock Exchanges and Clearing Corporations;

(b)Circular No. SEBI/HO/MRD/DSA/CIR/P/2016/30 dated January 22, 2016 - Amendment to SEBI Circular CIR/MRD/DSA/33/2012 dated December 13, 2012 pursuant to amendment in Regulation 2(1)(b) of SECC Regulations, 2012.

(2) Notwithstanding such repeal, anything done or any action taken or purported to have been taken or contemplated under the repealed regulations and circulars before the commencement of these regulations shall be deemed to have been done or taken or commenced or contemplated under the corresponding provisions of these regulations.

(3) After the repeal of the regulations and circulars referred to in sub-regulation (1), any reference thereto in any regulation, guideline, circular or direction issued by the Board shall be deemed to be a reference to the relevant provisions of these regulations.

FORM A

[*See* regulations 4 and 12]

Application for recognition of clearing corporation under regulation 4/ Application for renewal of recognition of clearing corporation under regulation 12 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018

To

…….

…….

Subject: Application for recognition or renewal of recognition of a clearing corporation under regulation 4/regulation 12 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018.

Sir,

1.We/I on behalf of ..... (name and address of clearing corporation) being a clearing corporation hereby apply for recognition/renewal of recognition for the purposes of the said Act in respect of clearing and settlement of contracts in securities.

2.Two copies of the rules, memorandum and articles of association relating in general to the constitution and management of the clearing corporation and two copies of the bye-laws for the clearing and settlement of contracts in securities are enclosed.

Form is enclosed. Any additional information will be furnished as and when called for by the Board.

4.We/I, on behalf of the said clearing corporation, hereby undertake to comply with the requirements of section 4 of the said Act and such other conditions and terms as may be contained in the certificate of recognition or be provided or imposed subsequently.

Proof of payment by way of direct credit in the bank account through NEFT/RTGS/IMPS or any other electronic mode permitted by RBI or through Demand Draft
No ..... dated ..... drawn in favour of Securities and Exchange Board of India
towards payment of fees as specified in regulation 5/ regulation 12 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018,is attached.

Yours faithfully,
Authorised signatory

ANNEXURE TO FORM 'A'

Part I — General

1.Name of the applicant clearing corporation.

2.Address.

3.Date of establishment or incorporation of a clearing corporation.

4.Is your clearing corporation a joint stock company (state whether public or private) registered under the Companies Act?

5.Give details of your capital structure and attach three copies of the audited balance sheets and profit and loss account of the clearing corporation for the preceding three years.

6.Give details of shareholding pattern of the clearing corporation.

7.Has your business viability plan been appraised by a reputed agency having expertise in securities market for its viability? Give a copy of the appraisal report.

8.Have you entered into an agreement with recognised stock exchange(s) for clearing and settling its trades? Give the name of such stock exchange(s) and details of its organisation and management.

Part II — Clearing membership of clearing corporation.

9.State the number of clearing members at the time of application. Also specify how many are inactive.

10.State whether there is any provision, resolution or convention for limiting the number of clearing members and whether in pursuance thereof you have fixed a ceiling on the number of clearing members that you would admit.

11.Do you insist on any minimum qualifications and experience before enrolling new clearing members? If so, give details.

12.State the different classes of clearing members, if any, the number thereof and the privileges enjoyed by each class. What is the procedure followed by your clearing corporation for the admission of different classes of new clearing members?

13.What are the rates of your annual subscription in respect of the different classes of clearing members?

14.Do you collect any security deposit from your clearing members? If so, give details and also state the manner in which such deposits are utilised and the rate of interest allowed, if any. 15.Do you collect any admission or entrance fees from your clearing members? If so, how much?

16.Do you insist on your clearing members divesting themselves of other activities either as principal or as employee?

17.Give details of the scale of brokerage and other charges, if any, specified by your clearing corporation.

18. Do you prescribe standard form of agreement to be entered with the trading member for engaging the services of your clearing member? Attach two copies of such agreement.
19. What are the measures adopted by you to regulate or prohibit advertising or issuing circulars by your clearing members?
20. Do you require clearing members to supply such information or explanation and to produce such books relating to their business as your governing board may require?
21. Do you undertake periodic inspection of your clearing members? Give details including the number of annual inspections and manpower available for conducting inspection.

Part III — Governing Board

22. What is the present strength of your governing board? Give details of the constitution, powers of management, election and tenure of office of members of the governing board, and the manner in which its business is transacted.
23. Are any trade or commercial interest represented on your governing board? If so, give details of interests represented.
24. Do you associate members of investors associations with the management of your clearing corporation? If so, state the manner in which it is done.
25. Are there any Government or the Board representatives on your governing board? If so, furnish their names.
26. How many public interest directors are there on the governing board? Furnish their names, qualifications and experience.
27. Do your rules provide for the direct election by clearing members on the Advisory Committee of the governing board? If so, give details of its constitution, tenure, powers and functions.
28. Do you have any provision for the appointment of standing or ad hoc subcommittees of the governing board? If so, furnish details of their composition, appointment, term of office, powers and functions.
29. Give the designations, powers and duties of key management personnel of your clearing corporation. Give details as to the mode of their appointment, tenure of office and remuneration.
30. What are the disciplinary powers with the governing board to enforce due compliance by clearing members of the rules and bye-laws of the clearing corporation and generally to ensure proper standard of business conduct?
31. What provisions have you made for the levy and recovery of fees, fines and penalties?

Part IV — Clearing and Settlement

32. Describe the clearing and settlement system of the clearing corporation.
33. State the different kinds of products being cleared and settled or proposed to be cleared and settled in your clearing corporation (e.g., equity, equity derivative, currency derivatives, interest rate derivatives, debt instruments, etc.). State the period of delivery, payment and the settlement mechanism in each case.
34. What are the conditions subject to which trades are settled and cleared on your clearing corporation?
35. What are your requirements for admitting derivative transactions for clearing and settlement?
36. Do you have the right to prohibit, withdraw or suspend clearing and settlement of dealings admitted for clearing and settlement? If so, under what circumstances is this right exercised?
37. Give details of the clearing and settlement charges and other charges, if any, levied by your clearing corporation.

38.What provisions have you made for periodical settlement of contracts and differences thereunder, the delivery of, and payment for securities and the passing of delivery orders?

38.How do you fix, alter or postpone the dates of settlement?

39.Do you provide any safeguards for the prevention of market manipulation, especially in the case of physical delivery of shares in the derivative markets and for meeting emergencies in settlement? Give details.

40.Provide a detailed assessment of the measures adopted to address the various risks faced by the clearing corporation in terms of the BIS-IOSCO paper on 'Principles for Financial Market Infrastructures.'

41.Do you publish any statistics in regard to business done on the clearing corporation including the value of Settlement Guarantee Fund and transactions settled through the clearing corporation, if maintained? In particular, have you evolved any machinery for computing the gross and net exposure of the clearing corporation and the value of clearing and settling of different kinds of contracts permitted on your clearing corporation? Give details.

42.(a) Do you have any bye-laws, contravention of which makes a contract void?

(b)Do you have necessary infrastructure, margin mechanism and adequate risk management mechanism to ensure market safety and integrity? Give Details

(c)Do you undertake any other activity other than clearing and settling? Give Details. (d)What is your net worth? Give Details.

(e)Give details of business hours?

(f)What are the conditions subject to which dealings are admitted for clearing and settlement?

43.Do you maintain Settlement Guarantee Fund? Give details of the corpus of the settlement guarantee fund, its contribution, circumstances for utilisation, priority of utilisation, etc

44.How do you ensure the adequacy of the Settlement Guarantee Fund? Do you perform stress tests on a periodic basis. Give details and results of the latest stress test.

45.What is the netting procedure adopted by the clearing corporation for determining the obligations of the clearing member?

46.What is your policy in respect of settling trades of shareholder stock exchange and non-shareholder stock exchange?

47.Do you have any provisions for regulating the volume of business and exposure taken by any individual clearing member other than through a system of margins? If so, give details. 48.What provisions have you made for regulating— (a) the entering into contracts, their performance and rescission (b) the consequences of breach, default or insolvency on the part of trading or clearing members whether acting as buyers, sellers or intermediaries?

Part V — Infrastructure

49.Do you have any machinery for arbitration of disputes between clearing members and/or between clearing members and their constituents and trading member and clearing member? Give details.

50.Have you established connectivity with the depositories, clearing banks, stock exchange and clearing members? Give details.

51.What is the average load that is being handled by your systems? What is the peak load that can be handled and the extent of scalability of the systems in times of stress?

52.What is your business continuity plan? Give details including details of the disaster recovery site.

53.What are the names, qualifications and expertise of your key management personnel?

FORM B

[*See* regulation 9 and 12]

The Securities and Exchange Board of India

No ..... The Securities and Exchange Board of India, having considered the application for grant of recognition/renewal of recognition under regulation 4/regulation 12 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 by ..... (name and address of clearing corporation) and being satisfied that it would be in the interest of the trade, in the interest of securities market and also in the public interest so to do, hereby grants, in exercise of the powers conferred by section 4 read with sub-section (4) of section 8A of the Securities Contracts (Regulation) Act, 1956,
recognition to the said clearing corporation for ..... year/years ending ..... 20 ..... subject to the conditions stated herein below or as may be prescribed or imposed hereafter.

Seal of the Board
Date:
Place: Mumbai

Signature of Officer

SCHEDULE - II

PART - A

[*See* regulation 26(1)]

Code of conduct for the directors on the governing board

1. Meetings and minutes.

Every director of the recognised stock exchange and recognised clearing corporation shall—

(a)not participate in discussions on any subject matter in which any conflict of interest exists or arises, whether pecuniary or otherwise, and in such cases the same shall be disclosed and recorded in the minutes of the meeting;

(b)not encourage the circulation of agenda papers during the meeting, unless circumstances so require;

(c)offer their comments on the draft minutes and ensure that the same are incorporated in the final minutes;

(d)insist on the minutes of the previous meeting being placed for approval in subsequent meeting;

(e)endeavour to have the date of next meeting fixed at each governing board meeting in consultation with other members of the governing board;

(f)endeavour to ensure that in case all the items of the agenda of a meeting were not covered for want of time, the next meeting is held within fifteen days for considering the remaining items.

2. Code of Conduct for the public interest directors.

(a)In addition to the conditions stated in Para (i) above, public interest directors of the recognised stock exchange or recognised clearing corporation shall, endeavour to attend all the governing board meetings and they shall be liable to vacate office if they remain absent for three consecutive meetings of the governing board or do not attend seventy five per cent. of the total meetings of the governing board in a calendar year.

(b)Public interest directors shall meet separately, at least once in six months to exchange views on critical issues.

(c)The public interest directors shall identify important issues which may involve conflict of interest for the stock exchange/ clearing corporation, or may have significant impact on the functioning of recognised stock exchange or recognised clearing corporation, or may not be in the interest of securities market. The same shall be reported to the Board.

3. Strategic planning.

Every director of the recognised stock exchange and recognised clearing corporation shall—

(a)participate in the formulation and execution of strategies in the best interest of the recognised stock exchange or recognised clearing corporation and contribute towards pro-active decision making at the governing board level;

(b)give benefit of their experience and expertise to the recognised stock exchange or recognised clearing corporation and provide assistance in strategic planning and execution of decisions.

4. Regulatory compliances.

Every director of the recognised stock exchange and recognised clearing corporation shall—

(a) ensure that the recognised stock exchange or recognised clearing corporation abides by all the applicable provisions of the Securities and Exchange Board of India Act, 1992, Securities Contracts (Regulation) Act, 1956, the Depositories Act, 1996, rules and regulations framed thereunder and the circulars, directions issued by the Board from time to time;

(b)ensure compliance at all levels so that the regulatory system does not suffer any breaches;

(c) ensure that the recognised stock exchange or recognised clearing corporation takes steps commensurate to honour the time limit stipulated by Board for corrective action;

(d)not support any decision in the meeting of the governing board which may adversely affect the interest of investors and shall report forthwith any such decision to the Board.

5. General responsibility.

Every director of the recognised stock exchange and recognised clearing corporation shall—

(a)place priority for redressing investor grievances and encouraging fair trade practice so that the recognised stock exchange or recognised clearing corporation becomes an engine for the growth of the securities market;

(b)endeavour to analyse and administer the recognised stock exchange or recognised clearing corporation issues with professional competence, fairness, impartiality, efficiency and effectiveness;

(c)submit the necessary disclosures/statement of holdings/dealings in securities as required by the recognised stock exchange or recognised clearing corporation from time to time as per their Rules or Articles of Association;

(d)unless otherwise required by law, maintain confidentiality and shall not divulge/disclose any information obtained in the discharge of their duty and no such information shall be used for personal gains;

(e)maintain the highest standards of personal integrity, truthfulness, honesty and fortitude in discharge of their duties in order to inspire public confidence and shall not engage in acts discreditable to their responsibilities;

(f)perform their duties in an independent and objective manner and avoid activities that may impair, or may appear to impair, their independence or objectivity or official duties;

(g)perform their duties with a positive attitude and constructively support open communication, creativity, dedication, and compassion;

(h)not engage in any act involving moral turpitude, dishonesty, fraud, deceit, or misrepresentation or any other act prejudicial to the administration of the recognised stock exchange or recognised clearing corporation.

PART - B

[*See* regulation 26(2)]

Code of Ethics for directors and key management personnel of stock exchanges or clearing corporations

The 'Code of Ethics' for directors and key management personnel of the recognised stock exchanges or recognised clearing corporations, is aimed at improving the professional and ethical standards in the functioning of recognised stock exchanges or recognised clearing corporations thereby creating better investor confidence in the integrity of the securities market.

1.Objectives and underlying principles.

The Code of Ethics for directors and key management personnel of the recognised stock exchange or recognised clearing corporation seeks to establish a minimum level of business/ professional ethics to be followed by these directors and key management personnel, towards establishing a fair and transparent marketplace. The Code of Ethics is based on the following fundamental principles:

(a)Fairness and transparency in dealing with matters relating to the stock exchange or clearing corporation and the investors.

(b)Compliance with all laws/ rules/ regulations laid down by regulatory agencies/ recognised stock exchange/ recognised clearing corporation.

(c)Exercising due diligence in the performance of duties.

(d)Avoidance of conflict of interest between self interest of directors/ key management personnel and interests of recognised stock exchange or recognised clearing corporation and investors.

2.Regulatory oversight committee.

For overseeing implementation of this Code, a regulatory oversight committee shall be constituted by every recognised stock exchange and recognised clearing corporation under the respective governing board.

3.General standards.

(a)Directors and key management personnel shall endeavour to promote greater awareness and understanding of ethical responsibilities.

(b)Directors and key management personnel, in the conduct of their business shall observe high standards of commercial honour and just and equitable principles of trade.

(c)The conduct of directors and key management personnel in business life should be exemplary which will set a standard for other members of the recognised stock exchange or recognised clearing corporation.

(d)Directors and key management personnel shall not use their position to give/get favours to/from the executive or administrative staff of the stock exchange or clearing corporation, technology or service providers and vendors of the recognised recognised stock exchange or recognized clearing corporation, or any listed company at the recognised stock exchange.

(e)Directors and key management personnel shall not commit any act which will put the reputation of the recognised stock exchange or recognised clearing corporation, in jeopardy.

(f)Directors, committee members and key management personnel of the recognised stock exchange or recognised clearing corporation, should comply with the provisions of all applicable law to the securities market.

4.Disclosure of dealings in securities by key management personnel of the stock exchange or clearing corporation.

(a)Key management personnel of the recognised stock exchange or recognised clearing corporation shall disclose on a periodic basis as determined by the recognized stock exchange or recognised clearing corporation (which could be monthly), all their

dealings in securities, directly or indirectly, to the governing board/ regulatory oversight committee/ Compliance Officer.

(b)The dealings in securities shall also be subject to trading restrictions for securities about which key management personnel in the recognised stock exchange or recognised clearing corporation may have unpublished price sensitive information. Requirement laid down under Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 shall be referred in this regard.

(c)All transactions must be of an investment nature and not speculative in nature. Towards this end, all securities purchased must be held for a minimum period of sixty days before they are sold. However, in specific/exceptional circumstances, sale can be effected anytime by obtaining pre-clearance from the Compliance Officer to waive this condition after recording in writing his satisfaction in this regard.

Explanation.—"securities" for the purposes of this Code shall not include mutual fund units.

5.Disclosure of dealings in securities by directors of the stock exchange or clearing corporation.

(a)All transactions / dealings in securities by the directors and their relatives shall be disclosed to the governing board of the recognised stock exchange or recognised clearing corporation.

(b)All directors shall also disclose the trading conducted by firms/corporate entities in which they hold twenty per cent. or more beneficial interest or hold a controlling interest, to the stock exchange/clearing corporation.

(c)The details including time period for disclosure under clause 5 (a) and 5 (b) above shall be prescribed by the stock exchange/clearing corporation, provided that the time period for disclosure shall not be later than fifteen days of the transaction / dealing.

(d)Directors who are Govt. of India nominees or nominees of Govt. of India statutory bodies or Public Financial Institutions and are governed by their own codes shall be exempt from this requirement.

6.Avoidance of conflict of interest.

a)No director of the governing board or member of any committee of the recognised stock exchange or recognised clearing corporation shall participate in any decisionmaking/adjudication in respect of any person /matter in which he is in any way, directly or indirectly, concerned or interested.

b)Whether there is any conflict of interest or not in a matter, shall be decided by the governing board.

7.Disclosures of beneficial interest.

All directors and key management personnel shall disclose to the governing board, upon assuming office and during their tenure in office, whenever the following arises:—

(a)any fiduciary relationship of self and family members and directorship/partnership of self and family members in any trading member or clearing member;

(b)shareholding, in cases where the shareholding of the director/key management personnel, directly or through his family exceeds 5 per cent. in any listed company or in other entities related to the securities markets;

(c)any other business interests.

8.Role of the Chairperson and directors in the day to day functioning of the stock exchange or clearing corporation.

(a)The Chairperson and directors shall not interfere in the day to day functioning of the recognised stock exchange or recognised clearing corporation and shall limit their role to decision making on policy issues and to issues as the governing board may decide.

(b)The Chairperson and directors shall abstain from influencing the employees of the recognised stock exchange or recognised clearing corporation in conducting their day to day activities.

(c)The Chairperson and directors shall not be directly involved in the function of appointment and promotion of employees unless specifically so decided by the governing board.

9.Access to information.

(a)Directors shall call for information only as part of specific committees or as may be authorised by the governing board.

(b)There shall be prescribed channels through which information shall move and further there shall be audit trail of the same. Any retrieval of confidential documents/ information shall be properly recorded.

(c)All such information, especially which is non-public and price sensitive, shall be kept confidential and not be used for any personal consideration/ gain.

(d)Any information relating to the business/operations of the recognised stock exchange or recognised clearing corporation, which may come to the knowledge of directors/ key management personnel during performance of their duties shall be held in strict confidence, shall not be divulged to any third party and shall not be used in any manner except for the performance of their duties.

10.Misuse of position.

Directors/ committee members shall not use their position to obtain business or any pecuniary benefit in the organization for themselves or family members.

11.Regulatory Oversight committee to lay down procedures.

(a)The regulatory oversight committee shall lay down procedures for the implementation of the code and prescribe reporting formats for the disclosures required under the code.

(b)The Compliance Officer shall execute the requirements laid down by the regulatory oversight committee.

While the objective of this Code is to enhance the level of market integrity and investor confidence, it is emphasized that a written code of ethics may not completely guarantee adherence to high ethical standards. This can be accomplished only if directors and key management personnel of the recognised stock exchange or recognised clearing corporation commit themselves to the task of enhancing the fairness and integrity of the system in letter and spirit.

PART – C

[See regulation 28]

Measures to ensure segregation of regulatory departments

(1)In order to ensure the segregation of regulatory departments, every recognised stock exchange and recognised clearing corporation shall adopt a "Chinese Wall" policy which separates the regulatory departments of the recognised stock exchange or recognised

clearing corporation from the other departments. The employees in the regulatory departments shall not communicate any information concerning regulatory activity to any one in other departments. The employees in regulatory areas may be physically segregated from employees in other departments including with respect to access controls. In exceptional circumstances employees from other departments may be given confidential information on "need to know" basis, under intimation to the Compliance Officer.

(2)Regulation 28 of these Regulations mandate segregation of regulatory departments from other departments. For this purpose, an indicative list of regulatory departments is given below. The governing board of the stock exchange/ clearing corporation may specify any other department having a regulatory function in addition to the list given below as a regulatory department.

(3)Departments handling the following functions shall be considered as regulatory departments in a Stock Exchange:-

(a) surveillance,
(b) listing,
(c) member registration,
(d) compliance,
(e) inspection,
(f) enforcement,
(g) arbitration,
(h) default,
(i) investor protection,
(j) investor services,

(4)Departments handling the following functions shall be considered as regulatory departments in a Clearing Corporation:-

(a) Risk management,
(b) member registration,
(c) compliance,
(d) inspection,
(e) enforcement,
(f) default,
(g) investor protection,
(h) investor services,

(5)The recognized stock exchange / recognized clearing corporation shall ensure that the regulatory departments viz., surveillance, inspection, risk management, default, investor protection, investor services etc, are sufficiently staffed with adequate number of persons having professional and relevant experience at all times.

PART - D

Application for seeking recognition as a Stock Exchange/ Clearing Corporation

[See regulation 4, 6 and 7]

(1) An applicant seeking recognition as a stock exchange/ clearing corporation shall substantiate its capability to fulfill all the requirements laid down under SCRA, SCRR and regulation 7 of these Regulations at the time of making the application.

(2) For the purpose of grant of in-principle approval under regulation 7(5) of these Regulations, the Board may take into account the factors which it may deem fit in the interest of the securities market. For this purpose, the Board may consider the information and documents including but not limited to the following:-

(a)Business feasibility plan for the next five years,

(b)Net worth certificate/ financial books and bank account details,

(c)Detailed write-up on each of its functions,

(d)Details of authorised officials along with specimen signatures of the authorized signatories,

(e)Proposed organisational structure,

(f)Necessary undertakings,

(g)Manpower planning,

(h)Background and necessary information (as specified herein) to establish that its shareholders/promoters are fit and proper persons, Information regarding its Office set-up, appointment of Managing Director after following due process.

(3) Before grant of final approval, in addition to the above, the applicant shall satisfy the Board with regard to compliance of the following:

(a)Appointment of heads of key departments such as legal, listing, member registration, trading and surveillance in case of a stock exchange, and

(b)Appointment of heads of key departments such as risk, legal, clearing and settlement, in case of a clearing corporation.

(c)Satisfactory compliance with observations of the Board during inquiry/ inspection by the Board.

(d)Any other requirement as the Board may deem necessary for disposal of the application.

PART - E

Bye-laws of Clearing Corporation, and procedure for submitting amendments to Articles/Rules/Bye- laws [*][9], etc., of a recognised stock exchange / recognized clearing corporation for approval of the Board

[See regulation 42]

(1)A clearing corporation shall in terms of applicable provisions of section 9 of the SCRA and regulation 42 of these Regulations make bye-laws, providing *inter alia* for the following:-

(a)the timings for pay-in and pay-out of funds and securities;

(b)rules for clearing and settlement;

(c)risk management mechanism;

(d)process of netting, novation and guarantee for settlement of trades;

(e)norms for contribution into and utilisation of the Fund in terms of regulation 39 of these Regulations ;

(f)rights and obligations of the clearing members vis-a-vis the clearing corporation, other clearing members, the trading members and clients of such trading members;

(g)criteria for admission and regulation of clearing members;

(h)default handling mechanism;

(i)Committees.

(j)any other matter as may be specified by the Board.

(2)**Procedure for submitting amendments to Articles/Rules/Bye- laws [*][10], etc., for approval of the Board:-** The amendments to the Memorandum, Articles of Association,

[9]Omitted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019. Prior to its omission, it read as "/Regulations".

Rules, bye-laws [*][11] (as may be applicable) etc., of the stock exchange/clearing corporation, in terms of the Securities Contracts (Regulation) Act, 1956, the Securities Contracts (Regulation) Rules, 1957, other applicable provisions in this regard, shall be submitted for approval of the Board, subsequent to the following.

a. The proposed amendment/s shall first be approved by the governing board of the stock exchange/clearing corporation, followed by shareholders approval (wherever applicable), then shall be submitted to the Board for approval and then published in the Gazette of India (wherever applicable) and the respective State.

b. The proposal shall be accompanied by the minutes of the governing board, the shareholder's resolution and public criticism. However, in case the amendments are pursuant to Regulations, circular etc, issued by the Board, the same shall not be subject to shareholder's approval.

PART - F

Application for grant of approval for holding equity shares in a recognized stock exchange or recognized clearing corporation.

[See regulation 19 (4)]

(1) A shareholder seeking approval of the Board for holding equity shares in a recognised stock exchange or recognised clearing corporation shall submit the following particulars:

(a) Name

(b) Address

(c) Details of employment/ business, if any:

(d) SEBI registration number, if any.

(e) Details of registration with other statutory authorities,.

(f) Declaration regarding the fulfillment of requirements of regulation 20 of these Regulations.

(g) Details of action /penalties taken/imposed against/upon him/it by any statutory authority in India or abroad.

(h) Details of activities that may, in the opinion of the shareholder, lead to his/its disqualification.

(i) Association with trading members/clearing members of stock exchanges/clearing corporations.

[10] Omitted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019. Prior to its omission, it read as "/Regulations".

[11] Omitted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019. Prior to its omission, it read as ", Regulations".

(j) Cases pending before any Court, Tribunal or any other statutory authority in India or abroad, if any.

(k) Prior approvals from the Board as fit and proper, if any.

PART G

Monitoring of shareholding limits

[See regulation 19A]

(1) In terms of sub-regulation 10 of regulation 19, the stock exchange/clearing corporation shall put in place a monitoring mechanism to ensure compliance with the shareholding

conditions specified in these Regulations at all times. Stock exchange/clearing corporation shall:-

(a)Check the shareholding data on a periodic basis to ensure that the shareholding restrictions specified under Chapter IV of the these Regulations are complied with at all times.

(b)Upon breach of shareholding limits, they shall intimate the same to the Board within 7 days.

(c)In case of listed stock exchanges, they would be guided by the Board circular dated January 01, 2016.

(d)Disseminate on its website, the number of shares available in the non-public, FII and FDI category. The information shall also be disseminated by the stock exchange on which the shares may be listed.

PART – H

Appointment of Directors

[See regulation 24 and 25]

12[(I)] Procedure for appointment:-

(1)All directors while seeking approval shall submit to the stock exchange/clearing corporation the following details:-

(a)Name
(b)Address
(c)Educational qualification
(d)Details of employment/ Occupation, past and present
(e)Details of other directorships
(f)DIN No.
(g)Declaration regarding the fulfillment of requirements specified under regulation 20 of these Regulations.

12Inserted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019.

(h)Declaration confirming compliance of Regulation 23 (6) read with Regulation 2 (1) (b) of these Regulations, in respect of non-association with trading member or clearing member.
(i)Details of regulatory action taken against by any statutory authority in India.
(j)Details of activities that may in the opinion of the director, lead to his disqualification.
(k)Association with trading members/clearing members of stock exchanges/clearing corporations.
(l) Disclosure of the names of his dependents associated with the securities market as member, sub-broker, authorized person or holding any SEBI registration. (m) An undertaking that he shall abide by the code of conduct and code of ethics prescribed in Part A and Part B of Schedule II to these Regulations.
(n)In the case of public interest directors, consent letters for acting as a public interest director.
(o)Pending / completed criminal cases pending before any authority in India or abroad, if any.

(2)The stock exchange/ clearing corporation shall forward the above details to the Board while recommending their names along with the minutes of the governing board meeting where their name/s was approved, copy of the shareholder's resolution (wherever

applicable), a confirmation by the stock exchange/ clearing corporation that they are fit and proper persons in terms of their fit and proper criteria and are not associated with any trading member or clearing member in terms of regulation 23 (6) read with regulation 2 (1) (b) of these Regulations.

[13][(II)] Managing Director / Executive Director:-

(1)The Nomination and Remuneration Committee of the recognized stock exchange/ recognized clearing corporation shall be responsible for selection of CEO /Managing Director / Executive Director, as the case may be. The managing director shall be selected through open advertisement in all editions of atleast one national daily from amongst persons qualified in the fields of capital market/ finance/ management and possessing sufficient experience. [14][The stock exchange/ clearing corporation shall forward the new names to the Board before two months from the last working day of the existing Managing Director].

(2)In case a vacancy of managing director arises due to unforeseen reasons, the stock exchange/ clearing corporation shall forward the new names to the Board within 60 days from the date of submission of resignation or such vacation of office.

[13]Inserted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019.

[14]Substituted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019. Prior to its substitution, it read as "In case of re-appointment, or extension of appointment, the stock exchange/ clearing corporation shall apply to the Board two months before the last working day of such Managing Director".

[15][(III)] Public Interest Directors:-

(1)The names of public interest directors shall be forwarded to the Board after the approval of the Board of the stock exchange/clearing corporation. The shareholders approval shall not be necessary. A minimum of two names shall be submitted to the Board for each vacancy of public interest directors.

(2)The stock exchange/ clearing corporation shall ensure that public interest directors are selected from diverse field of work. While deciding to propose a particular person as a public interest director, the stock exchange/ clearing corporation shall also take into account the following factors:

(a)Qualification in the area of law, finance, accounting, economics, management, administration or any other area relevant to the financial markets.

(b)Atleast one person shall be inducted having experience and background in finance / accounts who may preferably be inducted in the audit committee.

(c)Persons currently holding positions of trust and responsibility in reputed organisations or person who have retired from such positions.

(d)Persons who are likely to have interested positions in commercial contracts and financial affairs of stock exchanges, may preferably be excluded. Persons who are regular traders/ speculators in the market or are director in the board of the promoter entity of the Stock Exchange or Clearing Corporation, shall be excluded.

(3)Public interest directors shall peruse the relevant laws, code of conduct, code of ethics, etc and submit an undertaking to the stock exchange/clearing corporation that they are aware of their role, responsibilities and obligations. The stock exchange/clearing corporation shall provide at least seven days of training to every public interest director each year.

(4)In case of extension of the term of the public interest director or appointment of a new public interest director, the stock exchange/ clearing corporation shall apply to the Board

two months before the expiry of the term. In addition to the other requirements prescribed herein, the application for extension of term of the public interest director shall be accompanied with, his attendance details on meetings of various mandatory committees and on the governing board of the stock exchange / clearing corporation, performance review and the reasons for extension of term.

(5)The existing public interest director shall continue holding the post, till a new public interest director is appointed in his place.

15Inserted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019.

16[(IV)] Share Holder Directors

(1)The names of persons to be appointed as shareholder directors shall first be approved by the governing board of the stock exchange/ clearing corporation, followed by shareholders' approval before submitting the same to the Board for approval.

(2)The manner of election, appointment, tenure, resignation, vacation, etc. of shareholder directors shall be governed by the Companies Act, 2013 save as otherwise specifically provided under the these Regulations or in accordance with the Securities Contracts (Regulation) Act, 1956, circulars issued thereunder.

17[(V)] Selection of trading members/clearing members on the Advisory Committee to the governing board:-

(1)Prior to the appointment to the advisory committee, the governing board of the stock exchange/ clearing corporation shall satisfy itself that the trading members/ clearing members are fit and proper persons in terms of regulation 20 of the these Regulations. The governing board shall frame the eligibility norms, term of office, cooling off period etc., of members of the advisory committee in consultation with the trading members/clearing members of the stock exchange/ clearing corporation.

18[(VI)] General conditions on appointment of directors:-

(1)The stock exchange/ clearing corporation shall complete the appointment process within 30 days from nomination/approval for directors by the Board and submit a compliance report within one week from the date of appointment.

(2)In case any other official of the stock exchange/ clearing corporation is appointed on the governing board in addition to the Managing Director, the same shall be subject to the approval of shareholders and the Board, in that order.

PART - I

Norms for compensation policy

[See regulation 27 (3)]

(1)Regulation 27 of the these Regulations mandates that the compensation policy for key management personnel of stock exchange/ clearing corporation shall be in accordance with the norms specified by the Board. The compensation norms, in this regard, shall be as follows:-

(a)The variable pay component shall not exceed one-third of total pay.

16Inserted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019.

17Inserted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019.

18Inserted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Amendment) Regulations, 2019, w.e.f. 04-06-2019.

(b)50% of the variable pay shall be paid on a deferred basis after three years. (c)ESOPs and other equity linked instruments in the stock exchange/ clearing corporation shall not be offered or provided as part of the compensation for the key management personnel.

(d)The compensation policy shall have malus and clawback arrangements.

(2)Apart from the above, the compensation policy of the stock exchange/ clearing corporation shall take into consideration the following:

(a)financial condition / health of the stock exchange/ clearing corporation,

(b)average levels of compensation payable to employees in similar ranks,

(c)shall not contain any provisions regarding incentives to take excessive risks over the short term,

(d)revenues, net profit of the stock exchange/ clearing corporation,

(e)comparable to the industry standards,

(f)role and responsibilities of the key management personnel,

(g)periodic review

(3)At the time of seeking approval of the Board for the appointment of the managing director, the stock exchange/ clearing corporation shall seek approval for the compensation of the managing director from the Board. The compensation of the Managing Director of a stock exchange/clearing corporation already appointed with the approval of the Board shall be in accordance with the compensation policy as mentioned above. The same shall be submitted to the Board for approval within three months from the date of issue of these regulations.

PART - J

MISCELLANEOUS

(1)**Internal manual for conflict resolution:** The stock exchange/clearing corporation shall have an internal manual covering the management of conflicts between commercial and regulatory functions of the stock exchange/clearing corporation. The stock exchange/ clearing corporation shall put in place a policy for comprehensive training and awareness of its employees on the various conflicts of interests involved in the functioning of its regulatory departments. Further, the entire conflict management framework shall periodically be reviewed and be strengthened based on the observations of such review.

Sd/-

AJAY TYAGI

CHAIRMAN

SECURITIES AND EXCHANGE BOARD OF INDIA