LEARNING OUTCOMES

At the end of this Chapter, you will be able to:

- Know the meaning of securities and the history of introducing the law in India
- Learn what is Corporatisation and Demutualisation of Securities
- Know how does the listing of securities take place
- Explain what are the penalties and offences under the Securities Contract (Regulation) Act, 1956
1. INTRODUCTION

To begin with, let us first take the structure the Act and its corresponding Rules, which will make the study of the provisions and their interpretation easier –

**Applicability** – Whole of India

**Objective** – To prevent undesirable transactions in securities by regulating the business of dealing therein, by providing certain other matters connected therewith.

**Non-Applicability (Section 28)** – The provisions of this Act shall not apply to –

(a) The Government,

(b) the Reserve Bank of India (RBI),

(c) any local authority, or

(d) any corporation set-up by a special law or any person who has effected any transaction with or through the agency of any such authority as is referred to in this clause;

(e) Any convertible bond or share warrant or any option or right in relation thereto, in so far as it entitles the person in whose favour any of the former has been issued to obtain at his option from the company or other body corporate, issuing the same or from any of its shareholders’ or duly appointed agents, shares of the company or other body corporate, whether by conversion of the bond or warrant or otherwise on the basis of the price agreed upon when the same was issued.

While Act discusses the provisions of recognition of stock exchanges, licensing of dealers, listing of security requirements and the penalties and offences in case of contraventions; the corresponding rules, i.e. Securities Contract (Regulation) Rules, 1957, which are amended from time-to-time by the Central Government, and contains the mannerism and the procedure to perform those tasks.
Structure of the Act

2. DEFINITIONS (SECTION 2)

Contract

“Means a contract for or relating to the purchase or sale of securities.” [Section 2(a)]

In simple terms, a contract document is one, which sets out the details of a proposed transaction. In our context, a contract for the investment means a contract in equity or preference shares or subscribing to debentures of a company, whether convertible or not. Every investment contract begins with a ‘term sheet’, i.e. a bullet-point (non-binding) document, which outlines the terms of a proposed agreement. The parties to the contract exchange the ‘term sheet’ to negotiate the issues, and once finalized, definitive agreements in the form of ‘Share Holder Agreement’ and/or ‘Share Purchase Agreement’ are exchanged.

Here in the definition, note the term - contract ‘relating to the purchase or sale of securities’. This is best explained by an example of Share Purchase Agreement, commonly known as SPA, and is an agreement that sets out the terms and conditions relating to the sale and purchase of shares in a company. Certain SPAs can be used to buy or sell a business as a going concern. Such an agreement principally outlines the market price of shares, (including the premium amount, if any) and the duties and responsibilities of the parties with respect to powers of the board.

Example

A company Cookies Private Limited has two shareholders, Mr. Rock and Mr. Salt. Mr. Rock decides to sell his part of shares in Cookies Private Limited to another company, Crispy Private Limited for a specified monetary consideration. How should Mr. Rock proceed to document the transaction so as to make it legally binding on both the parties?

Answer

Such an understanding of transfer of the shares of Mr. Rock to Crispy Private Limited shall be recorded in SPA, which is a legally binding contract, and lists down all the terms and conditions which are relevant to the sale of shares, such as –
1.4 CORPORATE AND ECONOMIC LAWS

- the exact description of shares, i.e. the number of shares, price per share, premium amount, if any;
- the conditions that must be satisfied before the sale takes place;
- the date on which the sale will be completed;
- the manner in which the transfer will be made;
- any indemnities or protections available to the parties;
- the representations and warranties made by either party; and
- the conditions upon which the agreement will terminate.

Another document that is executed when a contract for shares and securities takes place, is the Share Holder Agreement (‘SHA’), which basically is a supplementary document to SPA. However, this document is not necessary in all the cases. The agreement lists down the right and obligations of each shareholder on different matters like, the manner in which the shareholders can exit the company; the procedure for transfer of shares, the procedure of winding-up of the company in case of liquidation, the procedure to resolve a disparity between the shareholders, the day-to-day operations of the company and the corresponding rights of the shareholders, and the composition of board of directors.

**Corporatisation**

“Means the succession of a recognised stock exchange, being a body of individuals, or a society registered under the Societies Registration Act, 1860, by another stock exchange, being a company incorporated for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities carried on by such individuals or society.” [*Section 2(aa)*]

The stock exchanges in India during the early 1950’s were operating either as body of individuals or in the form of registered Societies. This meant that the stock exchanges worked primarily for the benefit of the members of the society instead of working for the investors. In this regard, on the recommendations made by the committee established under M.H. Kania, with a view to expediting the reorganisation, the Central Government made changes in the law to facilitate the corporatisation of the stock exchanges. This was done in order to separate the ownership, management and trading rights from each other. According to the recommendations of the M.H. Kania Committee, SEBI, in 2003, had asked all the stock exchanges to submit a scheme within 6 months to implement the corporatisation scheme. Hence the SCRA was amended in 2004 to compel the stock exchanges to corporatize and demutualise.
Demutualisation

"Means the segregation of ownership and management from the trading rights of the members of a recognised stock exchange in accordance with a scheme approved by the Securities and Exchange Board of India." [Section 2(ab)]

First, let us understand what is meant by demutualisation. In simple words, it is a term used to describe the transition from mutual association of exchange members operating on a not-for-profit basis to a limited liability, for-profit company, accountable to shareholders. Essentially, demutualisation separates ownership (and voting right) from the right of access to trading.

As mentioned above, the stock exchanges in India were operating as a body of individuals in the form of private clubs and registered societies, whose objective was primarily to work for the benefit the members. The members of these stock exchanges were known as the stock brokers, who had a ‘seat’, i.e. a right to trade on the floor of the exchange. So in effect, the stock exchanges in the country, were dominated by the stock brokers, who did not pay much heed to the concept of governance. They just focused on increasing their wealth and snubbed the protection of investors. That resulted in the attrition of investor’s wealth and consequently their confidence in the stock market. Thus, the demutualisation of stock exchanges was made mandatory by the Central Government in 2003, to end the broker’s control over the exchanges. Post that, the access to trading became a matter of contract with the stock exchange, wherein the dealers were just operating as users or participants. The stock exchanges, which were previously operating as an unorganised sector, started acting a service provider to market intermediaries and listed companies, after adopting the scheme of demutualisation.

India’s two largest demutualised stock exchanges are the National Stock Exchange (‘NSE’) was formed in 1992 and Bombay Stock Exchange. Its shareholders are largely the state-owned banks and it is run for-profit and is not tax sheltered.
The above two pictures show how the concept of demutualisation has changed the operations of stock exchange in India. The first picture shows the traditional trading floor, wherein the members of the stock exchange, were the stock brokers themselves and they operated for the benefit of their own interests. The second picture depicts the current scenario of stock exchanges, wherein the contracts relating to sale and purchase of shares are automated online and the stock brokers are mere intermediaries between the stock exchange and the investors.

Derivative

“Includes –

A. a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for difference or any other form if security;

B. a contract which derives its value from the prices, or index of prices, of underlying securities.

C. Commodity derivatives;

D. Such other instruments as may be declared by the Central Government to be derivatives”.

To comprehend the definition, let us first understand the domain of derivatives, which is considered as one of the most complex financial instruments.

In layman’s term, derivatives are the financial instruments which help you make profits by betting on the future value of the underlying (i.e. the primary) asset. These might be in the form of stocks, indices, commodities, currencies, exchange rates or even rate of interest. The securities in which they are traded is called the underlying asset; and the value of such underlying assets changes frequently.

Example: The market price of a share of a company may increase/ decrease; the foreign currency exchange rate may fluctuate, the indices like Sensex or NIFTY might go up or down, etc. All of these are examples of derivatives.

Derivatives are traded in the market in the form of Futures, Forwards, Options or Swaps –
Forward Contracts

Forward contract is an agreement to sell a currency, commodity or other asset at a specified future date and at a pre-determined price, agreed upon today. Any type of contractual agreement that calls for the future purchase of a good or a service at a price agreed upon today and without the right of cancellation is a forward contract.

Example: If a farmer plans to grow 1000 kilos of rice next year, he could sell his rice for the price prevalent in the market at the time when he harvests it. As an another option, he might opt to lock-in a price today, at which he wishes to sell the harvest, by selling a forward contract to the Industrialist, that obligates him to sell his 1000 kilos of wheat, after harvest for a fixed price. By locking-in, he can reduce his risk of falling rice prices. However, if the prices rise later, he will get only what his entitles him to.

Future Contract

A futures contract is an agreement between two parties – a buyer and a seller – to buy or sell a security after a future date. The contract trades on a futures exchange and is subject to daily settlement procedure. Future contracts evolved out of forward contracts and possess many of the same characteristics. Futures are different from forwards from the fact that they settle every day, and that the parties to a forward contract tend to bear more credit risk than the parties to futures contracts because there is no clearing house involved that guarantees performance. That is why, forward contracts usually come with premiums for the added credit risk.
Section 30A of the Act deals with special provisions related to commodity derivatives and states that nothing in the Act shall apply to non-transferable specific delivery contracts (as explained in the terms below).

Government Security

"Means a security created and issued, whether before or after the commencement of this Act, by the Central Government or a State Government for the purpose of raising a public loan and having one of the forms specified in Section 2(2) of the Public Debt Act, 1944." [Section 2(b)]

Government securities are the low-risk securities since they are backed by the power of the government. Basically, it acknowledges the government’s debt obligation and are short termed and long termed. The short-term government securities come in the form of treasury bills (‘T-Bills’); and long term securities in the form of zero-risk government bonds.

Government of India also issues savings instruments like the Savings Bonds, National Savings Certificates, etc., or special securities such as oil bonds, Food Corporation of India bonds, fertiliser bonds, power bonds, etc.

Goods

"Mean every kind of movable property other than actionable claims, money and securities.” [Section 2(bb)]

Commodity Derivative

“Commodity derivative” means a contract-

(i) For the delivery of such goods, as may be notified by the Central Government in the Official Gazette, and which is not a ready delivery contract; or

(ii) For differences, which derives its value from prices or indices of prices of such underlying goods or activities, services, rights, interests and events, as may be notified by the Central Government, in consultation with the Board, but does not include securities as referred to in sub-clauses (A) and (B) of clause (ac). [Section 2(bc)]

Member

"Means a member of a recognised stock exchange.” [Section 2(c)]

Non-transferable specific delivery contract

“Means a specific delivery contract, the rights or liabilities under which or under any delivery order, railway receipt, bill of lading, warehouse receipt or any other documents of title relating thereto are not transferable.” [Section 2(ca)]

Option in Securities

“Means a contract for the purchase or sale of a right to buy or sell, or a right to buy and sell, securities in future, and includes a teji, a mandi, a teji mandi, a galli, a put, a call or a put and a call in securities.” [Section 2(d)]
Options are contracts, through which a seller gives the buyer, a right, but not the obligation, to buy or sell a specified number of shares at a pre-determined price, within a set time period. These contracts are essentially derivatives, since they derive their value from an underlying security on which the option is based. With options, one can tailor his position according to his own situation and stock market outlook.

Example:

Mr. Vivaan is having 400 shares of M/s Travel Everywhere Limited and the current price of these shares in the market is INR 100. Vivaan’s goal is to sell these shares in 6 months’ time. However, he is worried that the price of these shares could fall considerably, by then. At the same time, Vivaan doesn’t want to sell off these shares today, as he conjectured that the share price might appreciate in the near future. How should Mr. Vivaan protect his security and reduce the risk of loss on the share price?

In this case, Vivaan may opt for ‘Option’ derivative contract, which is an agreement to buy or sell a set of assets at a specified time in the future for a specified amount. However, it is not obligatory for him to hold the terms of the agreement, since he has an ‘option’ to exercise the contract. For example, if the current market price of the share is INR 100 and he buy an option to sell the shares to Mr. Rosesh at INR 200 after three-month, so Vivaan bought a put option.

Now, if after three months, the current price of the shares is INR 210, Mr. Vivaan may opt not to sell the shares to Mr. Rosesh and instead sell them in the market, thus making a profit of INR 110. Had the market price of the shares after three months would have been INR 90, Mr. Vivaan would have obliged the option contract and sold those shares to Rosesh, thus making a profit, even though the current market price was below the contracted price. Thus, here, the shares of Travel Everywhere is the underlying asset and the option contract is a form of derivative.

Prescribed

“Means prescribed by rules made under this Act.” [Section 2(e)]

Ready Delivery Contract

“Means a contract which provides for the delivery of goods and the payment of a price therefor, either immediately, or within such period not exceeding eleven days after the date of the contract
and subject to such conditions as the Central Government may, by notification in the Official Gazette, specify in respect of any goods, the period under such contract not being capable of extension by the mutual consent of the parties thereto or otherwise:

Provided that where any such contract is performed either wholly or in part:

(i) By realisation of any sum of money being the difference between the contract rate and the settlement rate or clearing rate or the rate of any offsetting contract; or

(ii) By any other means whatsoever, and as a result of which the actual tendering of the goods covered by the contract or payment of the full price therefor is dispensed with, then such contract shall not be deemed to be a ready delivery contract.” [Section 2(ea)]

Ready Delivery Contracts are also known as ‘cash trading’ or ‘cash transactions’ which are either settled on the same date or within a short period, up to eleven days. Under this, most of the sale and purchase transactions which the contracting parties is settled by paying for the goods immediately and the delivery of the goods take place instantly.

**Recognised Stock Exchange**

“Means a stock exchange which is for the time being recognised by the Central Government under section 4.” [Section 2(f)]

We shall be discussing the provisions of recognition of stock exchanges, later in the chapter.

**Rules**

“with reference to the rules relating in general to the constitution and management of a stock exchange, includes, in the case of a stock exchange which is an incorporated association, its memorandum and articles of association.” [Section 2(g)]

**Scheme**

“Means a scheme for corporatisation or demutualisation of recognised stock exchange which may provide for –

i. The issue of shares for a lawful consideration and provision of trading rights in lieu of membership cards of members of a recognised stock exchange;

ii. The restrictions on voting rights;

iii. The transfer of property, business, assets, rights, liabilities, recognitions, contracts of the recognised stock exchange, whether in the name of the recognised stock exchange or any trustee or otherwise and any permission given to, or by, the recognised stock exchange.

iv. the transfer of employees of a recognised stock exchange to another recognised stock exchange;

v. any other matter required for the purpose of, or in connection with, the corporatisation or demutualisation, as the case may be, of the recognised stock exchange. [Section 2(ga)]
Securities Appellate Tribunal

“Means a Securities Appellate Tribunal established under sub-section (1) of section 15K of the Securities and Exchange Board of India Act, 1992.” [Section 2(gb)]

Securities

“Include –

i. Shares, scrips, stocks, bonds, debenture, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate;

ii. Derivative

iii. Units or any other instrument issued by any collective investment scheme to the investors in such schemes;

iv. Security receipt as defined in clause (zg) of section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;

v. Units or any other such instrument issued to the investor under any mutual fund scheme;

   Explanation – for the removal of doubts, it is hereby declared that “securities” shall not include any unit linked insurance policy or scrips or any such instrument or unit, by whatever name called, which provides a combined benefit risk on the life of the persons and investment by such persons and issued by an insurer referred to in clause (9) of section 2 of the Insurance Act, 1938;

vi. Any certificate or instrument (by whatever name called), issued to an investor by any issuer being a special purpose distinct entity which possesses any debt or receivable, including mortgage debt, assigned to such entity, and acknowledging beneficial interest of such investor in such debtor receivable, including mortgage debt, as the case may be;

vii. Government securities;

viii. Such other instruments as may be declared by the Central Government to be securities; and

ix. Rights or interest in securities. [Section 2(h)]

Specific Delivery Contract

“Means a commodity derivative which provides for the actual delivery of specific qualities or types of goods during a specified future period at a price fixed thereby or to be fixed in the manner thereby agreed and in which the names of both the buyer and the seller are mentioned.” [Section 2(ha)]
Spot Delivery Contract

“Means a contract which provides for –

(a) Actual delivery of securities and the payment of a price therefor either on the same day as the date of the contract or on the next day, the actual period taken for the despatch of the securities or the remittance of money therefor through the post being excluded from the computation of the period aforesaid if the parties to the contract do not reside in the same town or locality;

(b) Transfer of securities by the depository from the account of a beneficial owner to the account of another beneficial owner when such securities are dealt with by a depository.” [Section 2(i)]

Stock Exchange

“Means –

(a) Any body of individuals, whether incorporated or not, constituted before corporatisation and demutualisation under section 4A and 4B, or

(b) A body corporate incorporated under the Companies Act, 1956 whether under a scheme of corporatisation and demutualisation or otherwise,

For the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities. [Section 2(j)]

Transferable Specific Delivery Contract

“Means a specific delivery contract which is not a non-transferable specific delivery contract and which subject to such conditions relating to its transferability as the Central Government may by notification in the Official Gazette, specify in this behalf.” [Section 2(k)]
Before we begin to discuss any provisions of the Act, it is important to note that wherever the powers have been dispensed with the Central Government to exercise any provision in the Act, most of them have been delegated to the SEBI, i.e. they are exercisable by SEBI as well vide S.O. 672(E), dated 13th September 1994, as published in the Gazette of India.

Application for recognition of stock exchanges (Section 3)

- The provisions of the section state that any stock exchange, which is desirous of being recognised for the purposed of this Act, may make an application in the prescribed manner to the Central Government (powers delegated to SEBI also) [Section 3(1)].

- The prescribed manner is stated in Rule 3 of the Securities Contract (Regulation) Rules, 1957, which mentions that the application for the recognition of the stock exchange shall be made to SEBI in Form A.

- Rule 4 of the Securities Contract (Regulation) Rules, 1957 describe the fees to be paid for the application shall be INR 500. It further states that the amount of the fee shall be deposited in the nearest Government treasury or the nearest branch of the State Bank of India, except that the fees for the application made in Mumbai, Kolkata, Delhi and Kanpur shall be deposited in the Reserve Bank of India.

- Sub-section (2) of Section 3 of the Act states that every application made to SEBI shall contain such particulars as may be prescribed, and shall be accompanied by a copy of the rules relating in general to the constitution of the stock exchange and in particular, to –
  
  (a) The governing body of such stock exchange, its constitution and powers of management and the manner in which its business is to be transacted;
  
  (b) The powers and duties of the office bearers of the stock exchange;
  
  (c) The admission into the stock exchange of various classes of members, the qualifications for membership, and the exclusion, suspension, expulsion and re-admission of members therefrom or thereinto;
  
  (d) The procedure for the registration of partnerships as members of the stock exchange in cases where the rules provide for such membership; and the nomination and appointment of authorised representatives and clerks.

- The prescribed particulars, as stated above, are contained in Rule 5 of the Securities Contract (Regulation) Rules, 1957, which state that every application shall be accompanied by four copies of the rules (including memorandum and articles of association where applicant stock exchange is an incorporated body) and bye-laws of the stock exchange applying for recognition as specified in Section 3 of the Act and the receipt granted by the Government treasury, or as the case may be, the State Bank of India or the Reserve Bank of India, in respect of the amount of the fee deposited and shall contain clear particulars as to the matters specified in the Annexure to Form A.
Grant of recognition to Stock Exchanges (Section 4)

Section 4(1) stated that if the Central Government (or SEBI) is satisfied, after making such inquiry as may be necessary in this behalf and after obtaining such further information, if any, as it may require, -

(a) That the rules and bye-laws of a stock exchange applying for registration are in conformity with such conditions as may be prescribed with a view to ensure fair dealing and to protect investors;

(b) That the stock exchange is willing to comply with any other conditions (including conditions as to the number of members) which the Central Government (or SEBI), after consultation with the governing body of the stock exchange and having regard to the area served by the stock exchange and its standing and the nature of the securities dealt with by it, may impose for the purpose of carrying out the objects of this Act, and

(c) That it would be in the interest of the trade and also in the public interest to grant recognition to the stock exchange;

it may grant recognition to the stock exchange subject to the conditions imposed upon it as aforesaid and in such form as may be prescribed.

As per the provisions above, SEBI may make inquiries or call for information as per the provisions contained in Rule 5A of the Securities Contract (Regulation) Rules, 1957, which states that before granting recognition to a stock exchange under section 4 of the Act, the Securities Exchange Board of India may make such inquiries and such further information to be furnished, as it may deem necessary, relating to the information furnished by the stock exchange in the Annexure to its application in Form A.

After seeking the required information and making the inquiries, SEBI may grant recognition to the stock exchange as per the provisions contained in Rule 6 of the Rules which discusses that the recognition granted to a stock exchange shall be in Form B and be subject to the following conditions, namely –

(a) That the recognition, unless granted on a permanent basis, shall be for such period not less than one year as may be specified in the recognition;

(b) That the stock exchange shall comply with such conditions as are or may be prescribed or imposed under the provisions of the Act and these rules from time-to-time.

Rule 7 - Renewal of Recognition

Rule 7(1) states that three months before the expiry of the period of recognition, a recognised stock exchange desirous of renewal of such recognition may make an application to the Securities and Exchange Board of India in Form A. The fee payable upon the application of renewal of recognition of stock exchange shall be two hundred rupees.

Who is eligible to be a member of a recognised stock exchange?

Rule 8 details the qualification for membership of a recognised stock exchange –

The below-mentioned persons can be admitted as the members of the recognised stock exchanges, subject to certain conditions, as prescribed in Rule 8 of the Securities Contract (Regulation) Rules, 1957, a snapshot of which is as below –
<table>
<thead>
<tr>
<th>Rule 8(1) - No person shall be eligible to be elected as a member if -</th>
</tr>
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<tbody>
<tr>
<td>• (a) he is less than 21 years of age;</td>
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<tr>
<td>• (b) he is not a citizen of India;</td>
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<td>(provided that the governing body may in suitable cases relax this condition upon prior approval of SEBI)</td>
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<td>• (c) he has been adjudged bankrupt or receiving order in bankruptcy has been made against him or he has proved to be insolvent even though he has obtained his final discharge;</td>
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<td>• (d) he has been compounded with his creditors unless he has paid sixteen annas in the rupee;</td>
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<tr>
<td>• (e) he has been convicted of an offence involving fraud and dishonesty;</td>
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<tr>
<td>• (f) he is engaged as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability unless he undertakes on admission to serve his connection with such business</td>
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<tr>
<td>• (h) he has been, at any time expelled or declared a defaulter by any other stock exchange;</td>
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<td>• (i) he has been previously refused admission to membership unless a period of one year has elapsed since the date of such rejection.</td>
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<td>Rule 8(2) - No person eligible for admission as a member under Rule 8(1) shall be admitted as a member unless -</td>
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<td>• (a) he has worked for not less than two years as a partner with, or an authorised assistant or authorised clerk or remisier or apprentice to, a member; or</td>
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<td>• (b) he agrees to work for a minimum period of two years as a partner or representative member with another member and to enter into bargains on the floor of the stock exchange and not in his own name but in the name of such other member; or</td>
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<tr>
<td>• (c) he succeeds to the established business of a deceased or retiring member who is his father, uncle, brother or any other person who is, in the opinion of the governing body, a close relative:</td>
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<td>• Provided that the rules of the stock exchange may authorise the governing body to waive compliance with any of the foregoing conditions if the person seeking admission is in respect of means, position, integrity, knowledge and experience of business in securities, considered by the governing body to be otherwise qualified for membership.</td>
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<td>Rule 8(3) - No person who is a member at the time of application for recognition or subsequently admitted as a member shall continue as such if -</td>
</tr>
<tr>
<td>• (a) he ceases to be a citizen of India: Provided that nothing herein shall affect those who are not citizens of India but who were members at the time of such application or were admitted subsequently under the provisions of Rule 8(1)(b), subject to their complying with all other requirements of this rule;</td>
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<tr>
<td>• (b) he is adjudged bankrupt or a receiving order in bankruptcy is made against him or he is proved to be insolvent;</td>
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<tr>
<td>• (c) he is convicted of an offence involving fraud or dishonesty;</td>
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<tr>
<td>• (d) he engages either as principal or employee in any business other than that of securities or commodity derivatives except as a broker or agent not involving any personal financial liability, provided that -</td>
</tr>
<tr>
<td>• (i) the governing body may, for reasons, to be recorded in writing, permit a member to engage himself as principal or employee in any such business, if the member in question ceases to carry on business of the stock exchange either as an individual or as a partner in a firm;</td>
</tr>
<tr>
<td>• (ii) in the case of those members who were under the rules in force at the time of such application permitted to engage in any such business and were actually so engaged on the date of such application, a period of 3 years from the date of severing their connection with any such business,</td>
</tr>
<tr>
<td>• (iii) nothing herein shall affect the members of a recognised stock exchange, which are corporations, bodies corporate, companies or institutions referred to in item (a) to (n) of the proviso to sub-rule 4.</td>
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</table>
### Rule 8(4) - A company defined in Companies Act, 1956 shall be eligible to be elected as member of a stock exchange if -

- (i) such company is formed in compliance with the provisions of section 322 of the said Act;
- (ii) a majority of the directors of such company are shareholders of such company and also members of that stock exchange; and
- (iii) the directors of such company, who are members of that stock exchange, have ultimate liability in such company.

According to proviso to sub-rule (4), where SEBI makes a recommendation in this regard, the governing body of a stock exchange shall, in relaxation of the requirements of this clause, admit as member the following corporations, bodies corporate, companies or institutions namely -

- (a) the Industrial Finance Corporation, established under the Industrial Finance Corporation Act, 1948;
- (b) the Industrial Development Bank of India, established under the Industrial Development Bank Act, 1964;
- (c) any insurance company registered by the Insurance Regulatory Development Authority under the Insurance Act, 1938;
- (e) the Unit Trust of India;
- (f) the Industrial Credit and Investment Corporation of India, a company registered under the Companies Act, 1956;
- (g) the subsidiaries of any of the corporations or companies specified in above and any subsidiary of the State Bank or any nationalised bank set up for providing merchant banking services, buying and selling securities and other similar activities;
- (h) any bank included in the Second Schedule to the Reserve Bank of India Act, 1934;
- (i) the Export Import Bank of India;
- (j) the National Bank for Agriculture and Rural Development;
- (k) the National Housing Bank;
- (l) Central Board of Trustees, Employees’ Provident Fund;
- (m) any pension fund registered or appointed or regulated by the Pension Fund Regulatory and Development Authority;
- (n) any Standalone Primary Dealers authorised by the Reserve Bank of India.

### Rule 4A - A company defined in the Companies Act, 1956 shall also be eligible to be elected as a member of a stock exchange, if -

- (i) such company is formed in compliance with the provisions of section 12 of the said Act;
- (ii) such company undertakes to comply with such financial requirements and norms as may be specified by SEBI for registration of such company under sub-section (1) of section 12 of SEBI Act, 1992;
- (iv) the directors of the Company are not disqualified from being members of a stock exchange under clause (1) [except sub-clause (b) and sub-clause (f) thereof] or clause (3) [except sub-clause (a) and sub-clause (f) thereof] and the Directors in any Company which had been a member of the stock exchange and had been declared defaulter or expelled by the stock exchange, and
- (v) not less than two directors of the company are persons who possess a minimum two years' experience:
  - (a) dealing in securities; or
  - (b) as portfolio managers; or
  - (c) as investment consultants.

### Others -

- Rule 8(5) - Where any member of the Stock Exchange is a Firm, the provisions of sub-rules (1), (3) and (4) shall, so far as they can, apply to the admission or continuation of any partner in such firm;
- Rule 8(6) - A Limited Liability Partnership ('LLP') as defined in the Limited Liability Partnership Act, 2008 shall also be eligible to be elected as a member of a stock exchange if -
  - (i) such LLP undertook to comply with such financial requirements and norms as may be provided by SEBI for registration of such LLP under Section 12(1) of SEBI Act, 1992;
  - (ii) the designated partners of LLP are not disqualified from being members of a stock exchange under sub-rule (1) [except clauses (b) and (f) thereof] or sub-rule (3) [except clause (a) and clause (f) thereof] and the designated partners of LLP had not held the offices of Directors in any company or body corporate or partner in any firm or LLP, which had been a member of a stock exchange and had been declared defaulter or expelled by the stock exchange; and
  - (iii) not less than two designated partners of the LLP are persons who possess a minimum experience of two years in -
    - (a) dealing in securities or
    - (b) as portfolio managers or
    - (c) as investment consultants.
- Rule 8(7) - Any provident fund represented by its trustees, of an exempted establishment under the Employees’ Provident Funds and Miscellaneous Provisions Act, 1952.
Withdrawal of Recognition (Section 5)

Section 5(1) states that if the Central Government/SEBI is of the opinion that the recognition granted to a stock exchange under the provisions of this Act, should, in the interest of the trade or in the public interest, be withdrawn, the Central Government or SEBI may serve on the governing body of the stock exchange, a written notice that the Central Government is considering the withdrawal of the recognition for the reasons stated in the notice and after giving an opportunity to the governing body to be heard in the matter, the Central Government may withdraw by notification in the Official Gazette, the recognition granted to the stock exchange.

Provided that no such withdrawal shall affect the validity of any contract entered into or made before the date of the notification, and the Central Government may, after consultation with the stock exchange, make such provision as it deems fit in the notification of withdrawal or in any subsequent notification similarly published for the due performance of any contracts outstanding on that date.

As per the Rule 13, the written notice for the withdrawal of recognition shall be in Form C.

Also, the Section 5(2) of the Act states that where the recognised stock has not been corporatized or demutualised or it fails to submit the scheme referred to in sub- section (1) of section 4B within the specified time therefor or the scheme has been rejected by SEBI under sub-section (5) of section 4B, the recognition granted to such stock exchange under section 4, shall, notwithstanding anything to the contrary contained in this Act, stand withdrawn and the Central Government shall publish, by notification in the Official Gazette, such withdrawal of recognition.

Thus, it is clear from the above provisions that the SEBI’s intent was to mandate that the existing stock exchanges should corporatize themselves for better administration and increased transparency of their working. For this, SEBI issued a circular SMD/POLICY/CIR3 on 30th January 2003, asking all the stock exchanges to submit a scheme within six months to implement the scheme. When the stock exchanges did not pay heed to the SEBI’s circular, the Securities Contract (Regulations) Act, 1956 was amended in 2004 to compel the stock exchanges to corporatize and demutualise. Whichever stock exchange did not follow SEBI’s directions, were considered to be inactive and ineligible for transactions.

Stock exchanges other than recognised stock exchanged prohibited (Section 19)

As per section 19 of the Act, no person shall organise or assist in organising or be a member of any stock exchange (other than a recognised stock exchange) for the purpose of assisting in, entering into or performing any contracts in securities, except with the approval of Central Government or SEBI.
The recognised stock exchanges are bound to work in a prescribed manner. The Securities Contract (Regulation) Rules, 1957 state that every stock exchange is required to follow the following rules –

- **Rule 12 – Audit of account of members** –
  - The corresponding rule states that every member shall get his accounts audited by a Chartered Accountant whenever such audit is required by SEBI.

- **Rule 14 – Books of Account and other documents to be maintained and preserved by every stock exchange** –
  - The above-mentioned rule states that every recognised stock exchange shall maintain and preserve the following books of account and documents for a period of 5 years –
    - Minute books of the meetings of –
      - Members;
      - Governing body
      - Any standing committee or committees of the governing body or of the general body of members.
    - Register of members showing their full names and addresses. Where any member of the stock exchange is a firm, full names and addresses of all partners shall be shown.
- Register of authorised clerks
- Register of remisiers of authorised assistants
- Record of security deposits
- Margin deposits book
- Ledgers
- Journals
- Cash book
- Bank pass-book.

- Rule 15 – Books of Account and other documents to be maintained and preserved by every member of the recognised stock exchange –
  - Books of account to be maintained and preserved by the members for 5 years –
    - Register of transactions (Sauda Book)
    - Clients’ ledger
    - General ledger
    - Journals
    - Cash Book
    - Bank pass-book
    - Documents register showing full particulars of shares and securities received and delivered.
  - Books of account to be maintained and preserved for a period of two years –
    - Members’ contract books showing details of all contracts entered into by him with other members of the same exchange or counterfoils or duplicates of memos of confirmation issued to such other members;
    - Counterfoils or duplicates of contract notes issued to clients.
    - Written consent of clients in respect of contracts entered into as principals.

The provisions of the Act state that the Central Government or SEBI has certain powers which it can exercise on the working of recognised stock exchanges. Let us discuss these provisions in detail –

**Periodical Returns and inquiries (Section 6)**

- Section 6 (1) read with Rule 17A states that it is the responsibility of every recognised stock exchange to furnish periodical return to Central Government or SEBI relating to –
The official rates for the securities enlisted thereon;

The number of shares delivered through the clearing house;

The making-up prices;

The clearing house programmes;

The number of securities listed and de-listed during the previous 3 months;

The number of securities brought on or removed from the forward list during the previous 3 months; and

Any other matter as may be specified by the Securities and Exchange Board of India.

Section 6(2) states the responsibility of the recognised stock exchanges to maintain and preserve the books of accounts, as discussed in Rule 14 & 15 as mentioned above, and that such documents and books of account shall be subject to inspection at all reasonable times by SEBI.

The sub-section (3) of section 6 read with Rule 16, positions that the SEBI may, in the interest of trade or public interest, issue an order to –

Call upon a recognised stock exchange or any member thereof to furnish in writing such information or explanation relating to the affairs of the stock exchange or of the members in relation to the stock exchanges as SEBI may require; or

Appoint one or more persons to make an inquiry in the prescribed manner in Rule 16, in relation to the affair of the governing body of a stock exchange or the affairs of any of the members of the stock exchange in relation to the stock exchange and submit a report of the result of such inquiry to SEBI within such time as prescribed in Rule 16 or, in the case of an inquiry in relation to the affairs of any of the members of a stock exchange, direct the governing body to make the inquiry and submit its report to SEBI.

The provisions of Section 6(4) also state that where an inquiry in relation to the affairs of the stock exchange or the affairs of any of its members in relation to the stock exchange has been undertaken under sub-section (3) –

Every director, manager, secretary, or other officer of such stock exchange;

Every member of such stock exchange;

If the members of the stock exchange is a firm, every partner, manager, secretary or other officer of the firm; and

Every other person or body of persons who has had dealings in the course of business with any of the persons mentioned in clause (a), (b) and (c), whether directly or indirectly,
Shall be bound to produce before the authority making the inquiry all such books of account, and other documents in his custody or power relating to or having a bearing on the subject-matter of such inquiry and also to furnish the authorities within such time as may be specified with any such statement or information relating thereto as may be required of him.

**Annual Reports to be furnished to CG by stock exchanges (Section 7)**

The provision states that every recognised stock exchange shall furnish a copy of the annual report to the Central Government which shall contain the particulars as prescribed in Rule 17 of the Securities Contract (Regulation) Rules, 1957. The said rules position that –

Every recognised stock exchange shall before the 31st day of January in each year or within such extended time as the SEBI may from time-to-time allow, furnish an annual report to SEBI about its activities during the preceding calendar year, which shall *inter alia* contain detailed information about the following matters –

- Changes in the rules and bye-laws, if any;
- Changes in the composition of the governing body;
- Any new sub-committees set up and changes in the composition of existing ones;
- Admissions, re-admissions, deaths or resignations of members;
- Disciplinary action against members;
- Arbitration of disputes (nature and number) between members and non-members;
- Defaults
- Action taken to combat any emergency in trade;
- Securities listed and de-listed; and
- Securities brought on or removed from the forward list.

Further, every recognised stock exchange shall within 1 month of the date of the holding of its annual general meeting, furnish the SEBI with a copy of its audited balance-sheet and profit and loss account for its preceding financial year.

**Restriction of voting rights by stock exchanges (Section 7A)**

The provisions of the Act state that the recognised stock exchange has the power to make rules or amend its rules to provide for –

(a) The restriction of voting rights to members only in respect of any matter placed before the stock exchange at any meeting;

(b) The regulation of voting rights in respect of any matter placed before the stock exchange at any meeting so that each member may be entitled to have one vote only, irrespective of his share of the paid-up equity capital of the stock exchange;
The restriction on the right of a member to appoint another person as his proxy to attend and vote at a meeting of the stock exchange;

Such incidental, consequential and supplementary matters as may be necessary to give effect to any of the matters specified in clause (a), (b) and (c).

In case the recognised stock exchange wishes to amend the rules, in relation to the above clauses, it must take the approval of Central Government.

**Powers of Central Government or SEBI**

**Power of Central Government/SEBI to direct rules to be made or to make rules of the Stock Exchange (Section 8)**

- The Central Government may, after consultation with the governing bodies of stock exchanges, form an opinion that it is necessary or expedient so to do, direct any recognised stock exchange by order in writing, to make or amend any rules already made in respect of all or any of the matters specified in Section 3(2) within a period of 2 months from the date of the order.

- If the recognised stock exchange does not comply with the order of the CG/SEBI, the latter may make the rules for, or amend the rules made by the recognised stock exchange, either in the form proposed in the order or with such modifications thereof as may be agreed to between the stock exchange and Central Government.

**Clearing Corporation (Section 8A)**

Let us first understand the concept of a clearing corporation. It is an organisation associated with a stock exchange to handle the confirmation, settlement and delivery of transactions, fulfilling the main obligation of ensuring transactions are made in a prompt and efficient manner.

Section 8A of the Act states that a recognised stock exchange may, with the prior approval of SEBI, transfer the duties and functions of a clearing house to a clearing corporation, being a company incorporated under the Companies Act for the purpose of –

- The periodical settlement of contracts and differences thereunder;
- The delivery of, and payment for, securities;
- Any other matter incidental to, or connected with, such transfer.

Also, the clearing corporation shall transfer the duties of the clearing house to a clearing corporation, make bye-laws and submit the same to SEBI for its approval. SEBI may grant the approval to the bye-laws submitted to it, upon being satisfied that the same is in public interest.

**Power of recognised stock exchange to make bye-laws (Section 9)**

As per the provisions of this section, a recognised stock exchange may make bye-laws for the regulation and control of contracts, subject to prior approval of SEBI. The bye-laws may provide for–
• The opening and closing of markets and the regulation of the hours of the trade;
• A clearing house for the periodical settlement of contracts and differences thereunder, the delivery of and payment for securities, the passing on of delivery orders and the regulation and maintenance of such clearing house;
• The submission to SEBI by the clearing house as soon as may be after each periodical settlement of all or any of the following particulars as SEBI may from, time-to-time, namely –
  o The total number of each category of security carried over from one settlement period to another;
  o The total number of each category of security, contracts in respect of which have been squared up during the course of each settlement period;
  o The total number of each category of security actually delivered at each clearing;
• The publication by the clearing house of all or any of the particulars submitted to SEBI under the above mentioned clause subject to the directions, if any, issued by SEBI in this behalf;
• The regulation or prohibition of blank transfers;
• The number and classes of contracts in respect of which settlements shall be made or differences paid through the clearing house;
• The regulation, or prohibition of budlas or carry-over facilities;
• The fixing, altering or postponing of days for settlements;
• The determination and declaration of market rates, including the prescription of margin requirements, if any, and conditions relating thereto, and the forms of contracts in writing;
• The regulation of the entering into, making, performance, rescission and termination, of contracts, including contracts between members or between a member and his constituent or between a member and a person who is not a person, and the consequences of default or insolvency on the part of a seller or buyer or intermediary, the consequences of a breach or omission by a seller or buyer, and the responsibility of members who are not parties to such contracts;
• The regulation of taravani business including the placing of limitations thereon;
• The listing of securities on the stock exchange, the inclusion of any security for the purpose of dealings and suspension or withdrawal of any such securities, and the suspension or prohibition of trading in any specified securities;
• The method and procedure for the settlement of claims or disputes, including settlement by arbitration;
• The levy and recovery of fees, fines and penalties;
• The regulation of the course of business between parties to contracts in any capacity;
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- The fixing of scale of brokerage and other charges;
- The making, comparing, settling and closing of bargains;
- The emergencies in trade which may arise, whether as a result of pool or syndicated operations or cornering or otherwise, and the exercise of powers in such emergencies, including the power to fix maximum and minimum prices for securities;
- The regulation of dealings by members for their own accounts;
- The separation of the functions of jobbers and brokers;
- The limitations on the volume of trade done by any individual member in exceptional circumstances;
- The obligation of members to supply such information or explanation and to produce such documents relating to the business as the governing body may require.

The stock exchange may specify the bye-laws for which there may be a consequence for contravention which may be –

- Fine;
- Expulsion from membership;
- Suspension from membership for a specified period;
- Any other penalty of a like nature not involving the payment of money.

**Power to make or amend bye-laws of recognised stock exchange (Section 10)**

The Central Government or SEBI are entrusted with the power to make or amend the bye-laws of the recognised stock exchange, either on its own or on behalf of a request received by it in writing. Such an amendment in the bye-laws of the stock exchange shall be published in Official Gazette of India and Official Gazette of State in which the principal office of the recognised stock exchange is situated.

In case the governing body of the stock exchange, objects to the amendment of bye-laws, directed by SEBI on its own, then it may apply to SEBI within 2 months of the publication in Gazette of India; and SEBI may make a revision to such an amendment after giving an opportunity to be heard to the governing body of such stock exchange.

The making or the amendment or revision of any bye-laws under this section shall in all cases be subject to the condition of previous publication – provided that if SEBI is satisfied in any case that in the interest of the trade or in the public interest any bye-laws should be made, amended or revised immediately, it may, by order in writing specifying the reasons therefor, dispense with the condition of previous publication.

**Power to supersede the governing body of a recognised stock exchange (Section 11)**

If the Central Government is of the opinion that the governing body of any recognised stock
exchange should be superseded, then CG may serve a notice to the governing body of such stock exchange and may appoint any person or persons to exercise and perform all the powers and duties of the governing body, to act as the Chairman and vice-chairman thereof.

**Power to suspend business of recognised stock exchange (Section 12)**

If the Central Government opines that an emergency has arisen and for the purpose of meeting the emergency, the Central Government considers it expedient so to do, it may, by notification in the Official Gazette direct a recognised stock exchange to suspend such of its business for a period not exceeding 7 days and subject to the conditions as may be specified in the notification. Central Government may also extend the period of notification, if it is so considered in the interest of trade or public interest.

**Power to issue directions (Section 12A)**

If, after making or causing to be made an inquiry, SEBI is satisfied that it is necessary in the interest of the investors or orderly development of securities market; or to prevent the affairs of any recognised stock exchange or clearing corporation, or such other agency or person, providing trading or clearing or settlement facility in respect of securities, being conducted in a manner detrimental to the interests of investors or securities market; or to secure the proper management of any such stock exchange or clearing corporation or agency or person; it may issue such directions-  

- To any stock exchange or clearing corporation or agency or persons referred to in above; or  
- To any company whose securities are listed or proposed to be listed in a recognised stock exchange

as may be appropriate in the interests of investors in securities and the securities market.

### 5. CONTRACTS AND OPTIONS IN SECURITIES

**Additional Trading Floor (Section 13A)**

In simple terms, a trading floor is an area on exchange where trading occurs. Trading floors can be found in the various buildings of Bombay Stock Exchange, National Stock Exchange, etc. However with the advent of electronic trading platforms, many of the trading floors that once dominated the market exchanges, have started to disappear since trading has become more electronically based. Additional trading floor means a trading ring or a trading facility offered by a recognised stock exchange outside its area of operating to enable the investors to buy and sell securities through such trading floor under the regulatory framework of that stock exchange. Therefore now, the trading floors can also be found in brokerages, investment banks and other companies involved in trading activities.

According to section, a stock exchange may establish additional trading floor with the prior approval of the SEBI in accordance with the terms and conditions stipulated by the said Board.
Members may not act as principals in certain circumstances (Section 15)

- According to section 15 of the Act, no member of a recognised stock exchange shall enter into any contract as a principal with any person, other than a member of a recognised stock exchange, unless he has secured the consent or authority of such person and discloses the same in the note, memorandum or agreement of sale or purchase that he is acting as a principal.

- However, where the member has secured the consent or authority of such person, otherwise than in writing, he shall secure written confirmation by such person or such consent or authority within 3 days from the date of contract.

- Also, no such written consent or authority of such person shall be necessary for closing out any outstanding contract entered into by such persons in accordance with the bye-laws, if the member discloses in the note, memorandum or agreement of sale or purchase in respect of such closing out that he is acting as a principal.

Contracts in Derivatives (Section 18)

The provisions of the Act state that contracts in derivative shall be legal and valid if such contracts are–

- Traded on a recognised stock exchange;

- Settled on the clearing house of the recognised stock exchange in accordance with the rules and bye-laws of such stock exchange;

- Between such parties and on such terms as the CG may, by notification in the Official Gazette, specify.

Power to prohibit contracts in certain cases (Section 16)

In case the Central Government or SEBI opines that it is necessary to prevent undesirable speculation in specified securities in any State or area, it may, by notification in the Official Gazette, declare that no person in the State or area, may enter into a contract for the sale or purchase of any security specified in the notification, except with the permission of Central Government or SEBI. All the contracts entered into, in contravention of the provisions of this section shall be illegal after the date of notification.

Licensing of dealers in securities in certain areas (Section 17)

The provisions of this section state that no person shall carry on or purport to carry on, whether on his own or on behalf of any other person, the business of dealing in securities, except under the authority of a licence granted by SEBI in this behalf.

Public issue and listing of securities referred to in Section 2(h)(ie) (Section 17A)

- No securities of the nature referred to in Section 2(h)(ie) shall be offered to the public or
listed on any recognised stock exchange unless the issuer fulfils such eligibility criteria and complies with such other requirements as may be specified by regulations made by SEBI.

- Every issuer referred to in Section 2(h)(ie), who is intending to offer the certificates or instruments referred therein to the public shall make an application to one or more recognised stock exchange, for permission for such certificates or instruments to be listed on the stock exchange or each such stock exchange, before issuing the offer document to public.

- Where the issuer does not get the required permission by the recognised stock exchange, he shall repay all the money received from the applicants in pursuance of the offer document, and if such money is not repaid within 8 days after the issuer becomes liable to repay it, then the issuer and every director or trustee thereof, who is in default shall be jointly and severally liable to repay that money with interest at the rate of 15 per cent per annum, on and after the expiry of 8th day.

6. INVESTORS’ RIGHTS RELATING TO DIVIDEND, INCOME FROM COLLECTIVE INVESTMENT SCHEME & MUTUAL FUNDS

Title to Dividends (Section 27)

It shall be lawful for the holder of any security whose name appears on the books of the company issuing the said security to receive and retain any dividend declared by the company in respect thereof for any year, notwithstanding that the said security has already been transferred by him for consideration, unless the transferee who claims the dividend from the transferor has lodged the security and all other documents relating to the transfer which may be required by the company with the company for being registered in his name within fifteen days of the date on which the dividend became due.

The said period shall be extended –

- In case of death of the transferee, by the actual period taken by his legal representative to establish his claim to dividend;

- In case of loss of the transfer deed by theft or any other cause beyond the control of the transferee, by the actual period taken for the replacement thereof; and

- In case of delay in the lodging of any security and other documents relating to the transfer due to causes connected with the post, by the actual period of the delay.

Nothing shall affect –

- The right of the company to pay any dividend which has become due to any person whose name is for the time being registered in the books of the Company as the holder of security in respect of which the dividend has become due; or
• The right of the transferee of any security to enforce against the transferor or any other person his rights, if any, in relation to the transfer in any case where the company has refused to register the transfer of the security in the name of the transferee.

Right to receive income from Collective Investment Scheme (Section 27A)

It shall be lawful for the holder of any securities, being units or other instruments issued by the collective investment scheme, whose name appears on the books of the collective investment scheme issuing the said security to receive and retain any income in respect of units or other instruments issued by the collective investment scheme declared by the collective investment scheme in respect thereof for any year, notwithstanding that the said security, being units or other instruments issued by the collective investment scheme, has already been transferred by him for consideration, unless the transferee who claims the income in respect of units or other instruments issued by the collective investment scheme from the transfer or has lodged the security and all other documents relating to the transfer which may be required by the collective investment scheme with the collective investment scheme for being registered in his name within fifteen days of the date on which the income in respect of units or other instruments issued by the collective investment scheme became due. [Sub-section (1)]

Explanation: The period specified in this section shall be extended—

(i) in case of death of the transferee, by the actual period taken by his legal representative to establish his claim to the income respect of units or other instrument issued by collective investment scheme;

(ii) in case of loss of the transfer deed by theft or any other cause beyond the control of the transferee, by the actual period taken for the replacement thereof; and

(iii) in case of delay in the lodging of any security, being units or other instruments issued by the collective investment scheme and other documents relating to the transfer due to causes connected with the post, by the actual period of the delay.

Nothing contained in sub-section (1) shall affect—

(a) the right of a collective investment scheme to pay any income from units or other instruments issued by collective investment scheme which has become due to any person whose name is for the time being registered in the books of the collective investment scheme as the holder of the security being units or other instruments issued by collective investment scheme in respect of which the income in respect of units or other instruments issued by collective scheme has become due; or

(b) the right of transferee of any security, being units or other instruments issued by collective investment scheme, to enforce against the transferor or any other person his rights, if any, in relation to the transfer in any case where the company has refused to register the transfer of the security being units or other instruments issued by the collective investment scheme in the name of the transferee.
Right to receive income from Mutual Fund (Section 27B)

It shall be lawful for the holder of any securities, being units or other instruments issued by any mutual fund, whose name appears on the books of the mutual fund issuing the said security to receive and retain any income in respect of units or other instruments issued by the mutual fund declared by the mutual fund in respect thereof for any year, notwithstanding that the said security, being units or other instruments issued by the mutual fund, has already been transferred by him for consideration, unless the transferee who claims the income in respect of units or other instruments issued by the mutual fund from the transferor has lodged the security and all other documents relating to the transfer which may be required by the mutual fund with the mutual fund for being registered in his name within fifteen days of the date on which the income in respect of units or other instruments issued by the mutual fund became due. [Sub-section (1)]

Explanation. The period specified in this section shall be extended –

(i) in case of death of the transferee, by the actual period taken by his legal representative to establish his claim to the income in respect of units or other instrument issued by the mutual fund;

(ii) in case of loss of the transfer deed by theft or any other cause beyond the control of transferee, by the actual period taken for the replacement thereof; and

(iii) in case of delay in the lodging of any security, being units or other instruments issued by the mutual fund, and other documents relating to the transfer due to causes connected with the post, by the actual period of the delay.

Nothing contained in sub-section (1) shall affect-

(a) the right of a mutual fund to pay any income from units or other instruments issued by the mutual fund which has become due to any person whose name is for the time being registered in the books of the mutual fund as the holder of the security being units or other instruments issued by the mutual fund in respect of which the income in respect of units or other instruments issued by mutual fund has become due; or

(b) the right of transferee of any security, being units or other instruments issued by the mutual fund, to enforce against the transferor or any other person his rights, if any, in relation to the transfer in any case where the mutual fund has refused to register the transfer of the security being units or other instruments issued by the mutual fund in the name of the transferee.”

7. LISTING OF SECURITIES

The Act details the provisions relating to listing of securities with the recognised stock exchanges. Before we get into the depth of the provisions, let us first understand as to what is meant by Listing of Securities.
Listing means taking into admission the securities of any company to dealings on a recognised stock exchange. The Supreme Court held in the matter of Raymond Synthetic Limited v. Union of India that the principal objectives of listing are to provide ready marketability and impart liquidity and free negotiability to stocks and shares and protect the interest of shareholders and of the general investing public.

The Supreme Court in the said case held that the public limited company has no obligation to have its shares listed on a recognised stock exchange; however, if the company intends to offer its shares or debentures to the public for subscription by the issue of a prospectus, it must before issuing such prospectus, apply to one or more recognised stock exchanges for permission to have the shares or debentures intended to be so offered to the public to be dealt with each such stock exchange in terms of provisions of the Companies Act. The same has also been held in the case of Union of India vs. Allied International Products Limited (1971).

**Conditions for listing of securities:**

Comply with the listing agreement of the stock exchange
Read with Rule 20

Appeal to CG/SEBI: within 15 days of refusal to list the securities by the stock exchange

Appeal to Securities Appellate Tribunal: within 15 days to one month of refusal by the stock exchange to list the securities

**Conditions for listing (Section 21)**

Where the securities are listed on the application of any person in any recognised stock exchange, such person shall comply with the conditions of the listing agreement with that stock exchange.

**Requirements regarding initial listing/ listing of public issues of securities**

A public limited company which is proposing to get its securities listed on a stock exchange, shall do so, by applying to the recognised stock exchange in the prescribed form of the concerned stock exchange and the listing application form shall be duly filled and signed with enclosures. The same should be sent to the stock exchange along with the following –

- Listing agreement duly executed and stamped on a non-judicial stamp paper of requisite value;
- Initial listing fees as prescribed.

The Securities Contract (Regulation) Rules, 1957 provide for the requirements which have to be satisfied by companies for the purpose of getting their securities listed on any stock exchange. A dispersed shareholding structure is essential for the sustenance of a continuous market for listed
securities to provide liquidity to the investors and to discover the fair prices. Moreover, larger the number of shareholders, the less is the scope for price manipulation.

Rule 19(1) of the Securities Contracts (Regulations) Rules, 1957 prescribes the documents and particulars to be furnished by a public company while applying for listing its securities.

**Delisting of securities (Section 21A)**

A recognised stock exchange may delist the securities, after recording the reasons therefore, from any recognised stock exchange on any of the ground or grounds as may be prescribed under this Act. The securities of a company shall not be delisted unless the company concerned has been given a reasonable opportunity of being heard. A listed company or an aggrieved investor may file an appeal before the Securities Appellate Tribunal against the decision of the recognised stock exchange within fifteen days from the date of the decision.

The alleged grounds have been detailed in Rule 21 which are stated as follows –

(i) the company has incurred losses during the preceding 3 consecutive years and it has negative net-worth;

(ii) trading in securities of the company has remained suspended for a period of more than 6 months;

(iii) the securities of the company have remained infrequently traded during the preceding 3 years;

(iv) the company or any of its promoters or any of its director has been convicted for failure to comply with any of the provisions of the Act or SEBI Act, 1992, or Depositories Act, 1996 or rules, regulations, agreements made thereunder, as the case may be and awarded a penalty of not less than one crore rupees or imprisonment of not less than 3 years;

(v) the addresses of the company or any of its promoter or any of its directors, are not known or false addresses have been furnished or the company has changed its registered office in contravention of the provisions of Companies Act; or

(vi) shareholding of the company held by the public has come below the minimum level applicable to the company as per the listing agreement under the Act and the company has failed to raise public holding to the required level within the time specified by the recognised stock exchange.

**Right of appeal against refusal of stock exchange to list securities of public companies (Section 22)**

Where a recognised stock exchange acting in pursuance of any power given to it by its bye-laws, refuses to list the securities of any public company or collective investment scheme, the company or scheme shall be entitled to be furnished with reasons for refusal, and may –
(i) within 15 days from the date on which the reasons for such refusal are furnished to it, or

(ii) where the stock exchange has omitted or failed to dispose of, within the time specified in corresponding provisions of Companies Act, the application for permission for the shares or debentures to be dealt with on the stock exchange, within 15 days from the date of expiry of the specified time or within such further period, not exceeding one month, as the Central Government may on sufficient cause being shown, allow,

appeal to Central Government against such refusal, omission or failure, as the case may be, and thereupon Central Government may, after giving the stock exchange an opportunity of being heard -

(i) vary or set aside the decision of the stock exchange, or

(ii) where the stock exchange has omitted or failed to dispose of the application within the specified time, grant or refuse the permission

and where the Central Government sets aside the decision of the recognised stock exchange or grants the permission, the stock exchange shall act in conformity with the orders of Central Government.

Right of Securities Appellate Tribunal against refusal of stock exchange to list securities of public companies (Section 22A)

Where a recognised stock exchange, acting in pursuance of any power given to it by its bye-laws, refuses to list the securities of any company, the company shall be entitled to be furnished with reasons for such refusal, and may,—

(a) within fifteen days from the date on which the reasons for such refusal are furnished to it, or

(b) where the stock exchange has omitted or failed to dispose of, within the time specified, the application for permission for the shares or debentures to be dealt with on the stock exchange, within fifteen days from the date of expiry of the specified time or within such further period, not exceeding one month, as the Securities Appellate Tribunal may, on sufficient cause being shown, allow, appeal to the Securities Appellate Tribunal having jurisdiction in the matter against such refusal, omission or failure. Thereupon the Securities Appellate Tribunal may, after giving the stock exchange, an opportunity of being heard,—

(i) vary or set aside the decision of the stock exchange; or

(ii) where the stock exchange has omitted or failed to dispose of the application within the specified time, grant or refuse the permission, and where the Securities Appellate Tribunal sets aside the decision of the recognised stock exchange or grants the permission, the stock exchange shall act in conformity with the orders of the Securities Appellate Tribunal.

Every appeal shall be in such form and be accompanied by such fee as may be prescribed. The Securities Appellate Tribunal shall send a copy of every order made by it to the Board and parties
to the appeal. The appeal filed before the Securities Appellate Tribunal shall be dealt with by it as expeditiously as possible and endeavour shall be made by it to dispose of the appeal finally within six months from the date of receipt of the appeal.

Procedures and Powers of Securities Appellate Tribunal (SAT) (Section 22B)

- SAT shall not be bound by the procedure laid down by the Code of Civil Procedure, 1908, but shall be guided by the principles of natural justice and, subject to the other provisions of this Act and of any rules, SAT shall have the powers to regulate their own procedure including the places at which they shall have their sittings.

- SAT shall have the same powers as are vested in a civil court under the Code of Civil Procedure, 1908, while trying a suit, in respect of the following matters, namely –
  - Summoning and enforcing the attendance of any person and examining him on oath;
  - Requiring the discovery and production of documents;
  - Receiving evidence on affidavits;
  - Issuing commissions for the examination of witnesses or documents;
  - Reviewing its decisions;
  - Dismissing an application for default or deciding it ex parte;
  - Setting aside any order of dismissal of any application for default or any order passed by it ex parte; and
  - Any other matter which may be prescribed.

Civil court not to have jurisdiction (Section 22E)

No civil court shall have jurisdiction to entertain any suit or proceeding in respect of any matter which a Securities Appellate Tribunal is empowered by or under this Act to determine and no injunction shall be granted by any court or other authority in respect of any action taken or to be taken in pursuance of any power conferred by or under this Act.

Appeal to Supreme Court (Section 22F)

Any person aggrieved by any decision or order of the Securities Appellate Tribunal may file an appeal to the Supreme Court within sixty days from the date of communication of the decision or order of the Securities Appellate Tribunal to him on any question of law arising out of such order. However, the Supreme Court may, if it is satisfied that the appellant was prevented by sufficient cause from filing the appeal within the said period, allow it to be filed within a further period not exceeding sixty days.
8. PENALTIES & OFFENCES

Grounds for imposing penalties (Section 23)

Any person who—

(a) without reasonable excuse (the burden of proving which shall be on him) fails to comply with any requisition made under sub-section (4) of section 6; or

(b) enters into any contract in contravention of any of the provisions contained in section 13 or section 16; or

(c) contravenes the provisions contained in section 17, or section 19; or

(d) enters into any contract in derivative in contravention of section 18A or the rules made under section 30;

(e) owns or keeps a place other than that of a recognised stock exchange which is used for the purpose of entering into or performing any contracts in contravention of any of the provisions of this Act and knowingly permits such place to be used for such purposes; or

(f) manages, controls, or assists in keeping any place other than that of a recognised stock exchange which is used for the purpose of entering into or performing any contracts in contravention of any of the provisions of this Act or at which contracts are recorded or adjusted or rights or liabilities arising out of contracts are adjusted, regulated or enforced in any manner whatsoever; or

(g) not being a member of a recognised stock exchange or his agent authorised as such under the rules or bye-laws of such stock exchange or not being a dealer in securities licensed under section 17 wilfully represents to or induces any person to believe that contracts can be entered into or performed under this Act through him; or

(h) not being a member of a recognised stock exchange or his agent authorised as such under the rules or bye-laws of such stock exchange or not being a dealer in securities licensed under section 17, canvasses, advertises or touts in any manner either for himself or on behalf of any other persons for any business connected with contracts in contravention of any of the provisions of this Act; or

(i) joins, gathers or assists in gathering at any place other than the place of business specified in the bye-laws of a recognised stock exchange any person or persons for making bids or offers or for entering into or performing any contracts in contravention of any of the provisions of this Act;

shall, without prejudice to any award of penalty by the Adjudicating Officer under this Act, on conviction, be punishable with imprisonment for a term which may extend to ten years or with fine, which may extend to twenty-five crore rupees, or with both.
Any person who enters into any contract in contravention of the provisions contained in section 15 or who fails to comply with the provisions of section 21 or section 21A or with the orders of or section 22 or with the orders of the Securities Appellate Tribunal shall, without prejudice to any award of penalty by the Adjudicating Officer under this Act, on conviction, be punishable with imprisonment for a term which may extend to ten years or with fine, which may extend to twenty-five crore rupees, or with both.

Other Grounds for Imposing Penalties –

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<th>Section</th>
<th>Contravention</th>
<th>Penalty</th>
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<tr>
<td>23A(a)</td>
<td>Failure to furnish any information, document, books, returns or report to a recognised stock exchange within the time specified in the listing agreement or conditions or bye-laws of the stock exchange</td>
<td>Fine of at least INR 1,00,000 but may extend to INR 1,00,000 per day during which such failure continues, subject to a maximum of INR 1 crore.</td>
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<td>23A(b)</td>
<td>Failure to maintain books of account or records, as per the listing agreement or conditions, or bye-laws of a recognised stock exchange</td>
<td>Fine of at least INR 1,00,000 but may extend to INR 1,00,000 per day during which such failure continues, subject to a maximum of INR 1 crore.</td>
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<td>23B</td>
<td>Failure by any person to enter into an agreement with clients</td>
<td>Fine of at least INR 1,00,000 but may extend to INR 1,00,000 per day during which such failure continues, subject to a maximum of INR 1 crore.</td>
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<tr>
<td>23C</td>
<td>Failure by a stock broker or sub-broker or a listed company or proposed listed company to redress investors' grievances within the time stipulated by SEBI or recognised stock exchange</td>
<td>Fine of at least INR 1,00,000 but may extend to INR 1,00,000 per day during which such failure continues, subject to a maximum of INR 1 crore.</td>
</tr>
<tr>
<td>23D</td>
<td>Failure to segregate securities or money of client or clients or using the securities or money of client for self-use or for any other client</td>
<td>At least INR 1,00,000 but may extend to INR 1 crore.</td>
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<tr>
<td>23E</td>
<td>Failure to comply with the provisions of listing conditions or delisting conditions or grounds, by a</td>
<td>At least INR 5,00,000 which may extend to INR 25 crores.</td>
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1.36 CORPORATE AND ECONOMIC LAWS

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<td>company or a person managing collective investment scheme</td>
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<td>23F</td>
<td>Excess dematerialisation or delivery of unlisted securities</td>
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<td>23G</td>
<td>Failure to furnish periodical returns to SEBI or fails or neglects to make or amend its rules or bye-laws as directed by SEBI or fails to comply with the directions of SEBI</td>
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<tr>
<td>23H</td>
<td>Failure to comply with any provision of this Act, the rules or articles or bye-laws or the regulations of recognised stock exchange or directions issued by SEBI for which no separate penalty has been provided</td>
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Further, Section 23K states that all sums realised by way of penalties under this Act shall be credited to the Consolidated Fund of India.

**Procedure for imposing penalties –**

**Power to adjudicate (Section 23I)**

- For the purpose of adjudging under sections 23A, 23B, 23C, 23D, 23E, 23F, 23G and 23H, the SEBI shall appoint any officer not below the rank of a Division Chief of the Securities and Exchange Board of India to be an adjudicating officer for holding an inquiry in the prescribed manner after giving any person concerned a reasonable opportunity of being heard for the purpose of imposing any penalty.

- While holding an inquiry, the adjudicating officer shall have power to summon and enforce the attendance of any person acquainted with the facts and circumstances of the case to give evidence or to produce any document, which in the opinion of the adjudicating officer, may be useful for or relevant to the subject-matter of the inquiry and if, on such inquiry, he is satisfied that the person has failed to comply with the provisions of any of the sections specified in sub-section (1), he may impose such penalty as he thinks fit in accordance with the provisions of any of those sections.

- The Board may call for and examine the record of any proceedings under this section and if it considers that the order passed by the adjudicating officer is erroneous to the extent it is not in the interests of the securities market, it may, after making or causing to be made such inquiry as it deems necessary, pass an order enhancing the quantum of penalty, if the circumstances of the case so justify. However, no such order shall be passed unless an opportunity of being heard has been given to the concerned person.

- Also, nothing contained in this sub-section shall be applicable after an expiry of a period of 3
months from the date of the order passed by the adjudicating officer or disposal of the appeal under section 23L, whichever is earlier.

Factors to be taken into account by adjudicating officer (Section 23J)

While adjudging the quantum of penalty under section 23-I, the adjudicating officer shall have due regard to the following factors –

(a) The amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) The amount of loss caused to an investor or group of investors as a result of the default;

(c) The repetitive nature of the default.

An explanation was added by the Finance Act, 2017, with effect from 01.04.2017, to the corresponding section to clarify that the power of the adjudicating officer to adjudge the quantum of penalty under sections 23A to 23C shall be and shall always be deemed to have exercised under the provisions of this section.

Settlement of administrative and civil proceedings (Section 23JA)

- Any person against whom any proceedings have been initiated or may be initiated under section 12A or section 23-I, may file an application in writing to SEBI proposing for settlement of the proceedings initiated for the alleged defaults.

- SEBI may, after taking into consideration the nature, gravity and impact of defaults, agree to the proposal for settlement, on payment of such sum by the defaulter or on such other terms as may be determined by SEBI.

- No appeal shall lie under section 23L against any order passed by the Board or the adjudicating officer, as the case may be, under this section.

Appeal to Securities Appellate Tribunal (Section 23L)

Establishment of Special Courts (Section 26A)

- The section has been inserted by the Securities Laws (Amendment) Act, 2014, with retrospective effect from 18th July 2013, and states that the for the purpose of providing speedy trial of offences under this Act, by notification establish or designate as many
Special Courts as may be necessary.

- A Special Court shall consist of a single judge who shall be appointed by Central Government with the concurrence of the Chief Justice of the High Court within whose jurisdiction the judge to be appointed is working.

- A person shall not be qualified for appointment as a judge of a Special Court unless he is, immediately before such appointment, holding the office of a Sessions Judge or an Additional Sessions Judge, as the case may be.

- All the offences under this Act, committed prior to the date of commencement of the Securities Laws (Amendment) Act, 2014 or on or after the date of such commencement, shall be taken cognizance of and tried by the Special Court.

- The provisions of the Code of Criminal Procedure, 1973 shall apply to the proceedings before a Special Court and the person conducting prosecution before the Special Court shall be deemed to be a Public Prosecutor within the meaning of Section 2(u) of the Code of Criminal Procedure, 1973.

Appeal and Revision (Section 26C)

- The High Court may exercise, so far as may be applicable, all the powers conferred by Chapters XXIX and XXX of the Code of Criminal Procedure, 1973 on a High Court, as if a Special Court within the local limits of the jurisdiction of the High Court were a Court of Session trying cases within the local limits of the jurisdiction of the High Court.

Offences (Section 23M)

- If any person contravenes, or attempts to contravene, or abets the contravention of the provisions of this Act or of any rules or regulations or bye-laws, for which no punishment is provided elsewhere in this Act, he shall be punishable with imprisonment for a term which may extend to 10 years or with fine, which may extend to INR 25 crores, or with both.

- If any person fails to pay the penalty imposed by the adjudicating officer or fails to comply with any of his directions or order, he shall be punishable with imprisonment for a term which shall not be less than 1 month but which may extend to 10 years, or with fine which may extend to INR 25 crores, or with both

Composition of certain offences (Section 23N)

- Any offence punishable under this Act, not being an offence punishable 'with imprisonment' only, or 'with imprisonment and also with fine' may either before or after the institution of any proceeding, be compounded by SAT or a court before which such proceedings are pending.

Offences by Companies (Section 24)

Where an offence has been committed by a company, every person who, at the time when the offence was committed, was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence, and shall be liable to be proceeded against and punished accordingly.
TEST YOUR KNOWLEDGE

Question 1:

Ms. Ashmita D’Souza recently graduated from National Law School, Bangalore and made her parents proud. While working on one of her assignments, she got really interested in knowing about the securities and gained expertise in the day-to-day working of financial markets. Meanwhile, her father got a wonderful opportunity at work to move to Germany and the whole family is very excited to make the move and settle there. Ashmita, along with her family applied for residence there and also gained the citizenship of Germany. She got married to a German, named Vincent, and they both came to India to start a career. After working with Ashmita on a couple of assignments, Vincent got interested to become a member of the Madras Stock Exchange, Chennai. Discuss, whether Vincent or Ashmita can become a member of the stock exchange, stating the provisions of Securities Contract Regulations in India.

Answer:

Rule 8 of the Securities Contract (Regulations) Rules, 1957 details the qualifications for becoming the member of a recognised stock exchange. In this regard, Rule 8(3) prescribes the persons that can be admitted as the members of the recognised stock exchange and mentions that no person who is a member at the time of application for recognition or subsequently admitted as a member if he ceases to be a citizen of India. Thus, Ashmita cannot become the member of the Chennai Stock Exchange since she ceased to be a citizen of India, as she has gained the citizenship of Germany.

In view of the facts given in the case study above, it is clear that Vincent is not a citizen of India. Therefore, as per Rule 8(1) of the Securities Contracts (Regulations) Rules, 1957, he cannot be elected as the member of the recognised stock exchange since he is not a citizen of India. However, the governing body of the Chennai Stock Exchange may take the prior approval of SEBI, in case they are interested in electing Vincent as a member of the stock exchange.

Question 2:

Shitiza has recently started her articleship with a reputed CA firm. Her first assignment involves understanding the working of stock exchange and the transactions related thereto. Since she is a part of your team, your manager has assigned you with the responsibility to make sure that Shubhangi is aware of the basic terms relating to securities market. In view of the Securities Contract (Regulation) Act, 1956, brief your teammate about the following terms -

a. Option in securities
b. Spot delivery contracts
c. Ready delivery contract
d. Derivative
Answer:

(a) **Option in securities:** As per section 2(d) of the Securities Contract (Regulation) Act, 1956, option means a contract for the purchase or sale of a right to buy or sell, or a right to buy and sell, securities in future, and includes a teji, a mandi, a teji mandi, a galli, a put, a call or a put and a call in securities. Options are contracts, through which a seller gives the buyer, a right, but not the obligation, to buy or sell a specified number of shares at a pre-determined price, within a set time period. These contracts are essentially derivatives, since they derive their value from an underlying security on which the option is based. With options, one can tailor his position according to his own situation and stock market outlook.

(b) **Spot delivery contracts:** Section 2(i) of the Securities Contract (Regulations) Act, 1956 describe spot delivery contracts to mean a contract which provides for –

(a) Actual delivery of securities and the payment of a price therefor either on the same day as the date of the contract or on the next day, the actual period taken for the despatch of the securities or the remittance of money therefor through the post being excluded from the computation of the period aforesaid if the parties to the contract do not reside in the same town or locality;

(b) Transfer of securities by the depository from the account of a beneficial owner to the account of another beneficial owner when such securities are dealt with by a depository.”

(c) **Ready delivery contract:** Section 2(ea) of the Securities Contract (Regulation) Act, 1956 state the meaning of ready delivery contracts to mean a contract which provides for the delivery of goods and the payment of a price therefor, either immediately, or within such period not exceeding eleven days after the date of the contract and subject to such conditions as the Central Government may, by notification in the Official Gazette, specify in respect of any goods, the period under such contract not being capable of extension by the mutual consent of the parties thereto or otherwise:

Provided that where any such contract is performed either wholly or in part:

(I) By realisation of any sum of money being the difference between the contract rate and the settlement rate or clearing rate or the rate of any offsetting contract; or

(II) By any other means whatsoever, and as a result of which the actual tendering of the goods covered by the contract or payment of the full price therefor is dispensed with, then such contract shall not be deemed to be a ready delivery contract.

Ready Delivery Contracts are also known as ‘cash trading’ or ‘cash transactions’ which are either settled on the same date or within a short period, upto eleven days. Under this, most of the sale and purchase transactions which the contracting parties is settled by paying for the goods immediately and the delivery of the goods take place instantly.
(d) **Derivative:** As per Section 2(ac) of the Securities Contract (Regulation) Act, 1956, derivatives include –

(I) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for difference or any other form if security;

(II) a contract which derives its value from the prices, or index of prices, of underlying securities.

(III) Commodity derivatives;

(IV) Such other instruments as may be declared by the Central Government to be derivatives”

**Question 3:**

Upon complaints been received by SEBI, regarding the listed securities of Blue Rock Limited at the Guwahati Stock Exchange, Guwahati Stock Exchange has passed an order to delist the securities of the company from the said stock exchange. Blue Rock Limited is aggrieved by the order of the Guwahati Stock Exchange. Advise the company on the further step that the company can take against the order of Guwahati Stock Exchange to delist the securities.

**Answer:**

As per the facts of the case given in the question above, the aggrieved company, i.e. Blue Rock Limited may appeal to the Securities Appellate Tribunal (‘SAT’) against the decision of SEBI within 45 days of date from which the order has been passed, unless further extension has been granted by SAT on reasonable grounds.

As per Section 23L, the Tribunal shall give an opportunity of being heard to the respondent and may pass the order confirming, modifying or setting aside the decision of SEBI.

SAT shall also send a copy of its order to every party to appeal and to the concerned adjudicating officer. Also, the company, Blue Rock Limited should be assured that a speedy decision shall be taken, since the Tribunal is required to dispose of every 6 months from the date of receipt of appeal.

**Question 4:**

*What is the right of any person to receive the income from collective investment scheme?*

**Answer:**

Section 27A of the Securities Contract (Regulation) Act, 1956 sets out that it shall be lawful for the holder of any securities, being units or other instruments issued by the collective investment scheme, whose name appears on the books of the collective investment scheme issuing the said security to receive and retain any income in respect of units or other instruments issued by the collective investment scheme declared by the collective investment scheme in respect thereof for
any year, notwithstanding that the said security, being units or other instruments issued by the collective investment scheme, has already been transferred by him for consideration, unless the transferee who claims the income in respect of units or other instruments issued by the collective investment scheme from the transfer or has lodged the security and all other documents relating to the transfer which may be required by the collective investment scheme with the collective investment scheme for being registered in his name within fifteen days of the date on which the income in respect of units or other instruments issued by the collective investment scheme became due.

Question 5

SEBI has asked Jaipur Stock Exchange to furnish their books of accounts and audited financial statements for the period 1st April 2015 to 31st March 2017 within 30 days of the receipt of the communication by the stock exchange. The communication was received by the company on 30th April 2017 and no documents were furnished to SEBI in reply to the notice till 15th May 2017. Can the stock exchange be penalised for this inaction?

Answer:

As per section 23A(a) of the Securities Contract (Regulation) Act, 1956, if any person fails to furnish any information, document, books, returns or report to a recognised stock exchange within the time specified in the listing agreement or conditions or bye-laws of the stock exchange, he shall punishable with a fine of at least one lakh rupees which may extend to one lakh rupees per day during which such failure continues, subject to a maximum of one crore rupees. Thus, Jaipur Stock Exchange shall be liable to the afore-mentioned penalty under section 23A(a) of the Act.