

**SECURITIES AND EXCHANGE BOARD OF INDIA
(PROHIBITION OF FRAUDULENT AND UNFAIR TRADE
PRACTICES RELATING TO SECURITIES MARKETS)
REGULATIONS, 1995**

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**SECURITIES AND EXCHANGE BOARD OF INDIA
(PROHIBITION OF FRAUDULENT AND UNFAIR TRADE
PRACTICES RELATING TO SECURITIES MARKETS)
REGULATIONS, 1995**

In exercise of the powers conferred by section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Board hereby makes the following regulations, namely-

CHAPTER 1
PRELIMINARY

1. Short title and commencement :-

(1) These regulations may be called the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 1995.

(2) They shall come into force on the date of their publication in the Official Gazette.

2. Definitions :-

(1) In these regulations, unless the context otherwise requires-

(a) "Act" means the Securities and Exchange Board of India Act, 1992 (15 of 1992);

(b) "dealing in securities" means an act of buying, selling or otherwise dealing in any security or agreeing to buy, sell or otherwise deal in any security by any person either as principal or as agent;

(c) "fraud" includes any of the following acts committed by a party to a contract, or with his connivance, or by his agent, with intent to deceive another party thereto or his agent, or to induce him to enter into the contract -

(1) the suggestion, as to a fact, of that which is not true, by one who does not believe it to be true;

(2) the active concealment of a fact by one having knowledge or belief of the fact;

(3) a promise made without any intention of performing it;

(4) any other act fitted to deceive;

(5) any such act or omission as the law specially declares to be fraudulent; and "fraudulent" shall be construed accordingly. Explanation.-Mere silence as to facts likely to affect the willingness' of a person to enter into a contract is not fraud, unless the circumstances of the case are such that, regard being had to them, it is the duty of the person keeping silence to speak, or unless his silence is in itself equivalent to speech;

(d) "investigating officer" means any person authorised by the Board to undertake investigation under regulation 7;

(e) "regulation" means a regulation contained in these regulations; and

(f) "securities" means securities as defined in S.2 of the Securities Contracts (Regulation) Act, 1956.

CHAPTER 2

PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET

3. Prohibition of certain dealings in securities :-

No person shall buy, sell or otherwise deal in securities in a fraudulent manner.

4. Prohibition against market manipulation :-

No person shall-

(a) effect, take part in, or enter into, either directly or indirectly, transactions in securities, with the intention of artificially raising or depressing the prices of securities and thereby inducing the sale or purchase of securities by any person;

(b) indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities market;

(c) indulge in any act, which results in reflection of prices of securities based on transactions that are not genuine trade transactions;

(d) enter into a purchase or sale of any securities, not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress, or cause fluctuations in the market price of securities;

(e) pay, offer or agree to pay or offer, directly or indirectly, to any person any money or money's worth for inducing another person to purchase or sell any security with the sole object of inflating, depressing, or causing fluctuations in the market price of securities.

5. Prohibition of misleading statements to Induce sale or purchase of securities :-

(1) No person shall make any statement, or disseminate any information which-

(a) is misleading in a material particular; and

(b) is likely to induce the sale or purchase of securities by any other person or is likely to have the effect of increasing or depressing the market price of securities, if when he makes the statement or disseminates the information-

(i) he does not care whether the statement or information is true or false; or

(ii) he knows, or ought reasonably to have known that the statement or information is misleading in any material particular.

(a) the economic policy of the Government,

(b) the economic situation in the country,

(c) trends in the securities markets, or

(d) any other matter of a similar nature,

6. Prohibition of unfair trade practices relating to securities

:-

No person shall-

(a) in the course of his business, knowingly engaged in any act, or practice which would operate as a fraud upon any person in connection with the purchase or sale of, or any other dealing in, any securities;

(b) on his own behalf or on behalf of any person, knowingly buy, sell or otherwise deal in securities, pending the execution of any order of his client relating to the same security for purchase, sale or other dealings in respect of securities. Nothing contained in this clause shall apply where according to the client's instruction, the transaction for the client is to be effected only under specified conditions or in specified circumstances;

(c) intentionally and in contravention of any law for the time being in force delays the transfer of securities in the name of the transferee or the despatch of securities or connected documents to any transferee;

(d) indulge in falsification of the books, accounts and records (whether maintained manually or in computer or in any other form);

(e) when acting as an agent, execute a transaction with a client at a price other than the price at which the transaction was executed by him, whether on a stock exchange or otherwise, or at a price other than the price at which it was off-set against the transaction of another client.

CHAPTER 3

INVESTIGATION INTO ALLEGED CONTRAVENTIONS

7. Power of the Board to order Investigation :-

(1) The Board may, suo motu or upon information received by it, cause an investigation to be made in respect of the conduct and affairs of any person buying, selling or otherwise dealing in securities, by an Investigating Officer whom the Board considers fit: Provided that no such investigation shall be made except for the purposes specified in sub-regulation (2).

(2) The purposes referred to in sub-regulation (1) are the following, namely :-

(a) to ascertain whether there are any circumstances which would render any person guilty of having contravened any of these regulations or any directions issued thereunder;

(b) to investigate into any complaint of any contravention of the regulation, received from any investor, intermediary or any other person.

8. Procedure for Investigation :-

(1) Before causing an investigation to be made under regulation 7, the Board shall give notice.

(2) Notwithstanding anything contained in sub-regulation (1) where the Board is satisfied that in the interest of the investors or in the public interest, no such notice should be given, it may, by an order in writing and recording the reasons as far as practicable, direct that the investigation be undertaken without such notice.

(3) Subject to the provisions of this regulation, an order passed under regulation 7 shall be a sufficient authority for the Investigating Officer to undertake the investigation and, on production of an authenticated copy of the order, the person concerned shall be bound to carry out the duty imposed in regulation 9.

9. Duty to produce records, etc :-

(1) It shall be the duty of every person in respect of whom an investigation has been ordered under regulation 8, to produce to the Investigating Officer such books, accounts and other documents in his custody or control and furnish him with such statements and information as the said officer may reasonably require for the purposes of the investigation.

(2) Without prejudice to the generality of the provisions of sub-regulation (1), such person shall-

(a) allow the Investigating Officer to have access to the premises occupied by such person at all reasonable times for the purpose of investigation;

(b) extend to the Investigating Officer reasonable facilities for examining any books, accounts and other documents in his custody or control (whether kept manually or in computer or in any other form) reasonably required for the purposes of the investigation;

(c) provide to such Investigating Officer copies of any such books, accounts and records which, in the opinion of the Investigating Officer, are relevant to the investigation or, as the case may be, allow him to take out computer outprints thereof.

(3) The Investigating Officer shall, for the purpose of investigation, have power to examine orally and to record the statement of the person concerned, any director, partner, member or employee of such person.

(4) It shall be the duty of every person concerned, to give to the Investigating Officer, all such assistance and otherwise extend all such co-operation as may reasonably be required in connection with the investigation and to furnish information relevant to such investigation as may be reasonably sought by such officer.

10. Submission of report to the Board :-

The Investigating Officer shall, on completion of the investigation, after taking into account all relevant facts and submissions made by the person concerned, submit a report to the Board.

11. Power of the Board to issue directions :-

The Board may, after consideration of the report referred to in regulation 10, and after giving a reasonable opportunity of hearing to the person concerned, issue directions for ensuring due compliance with the provisions of the Act, rules and regulations made thereunder, for the purposes specified in regulation 12.

12. Purpose of directions :-

The purposes for which directions under regulation 11 may be issued are the following namely:-

(a) directing the person concerned not to deal in securities in any particular manner;

(b) requiring the person concerned to call upon any of its officers, other employees or representatives to refrain from dealing in securities in any particular manner;

(c) prohibiting the person concerned from disposing of any of the securities acquired in contravention of these regulations;

(d) directing the person concerned to dispose of any such securities acquired in contravention of these regulations, in such manner as the Board may deem fit, for restoring the status quo ante.

13. Suspension or cancellation of registration :-

The Board may, in the circumstances specified in regulation 11, and without prejudice to its power under regulation 12, initiate action for suspension or cancellation of registration of an intermediary holding a certificate of registration under section 12 of the Act: Provided that no such certificate of registration shall be suspended or cancelled unless the procedure specified in the regulation applicable to such intermediary is complied with.