

## **Securities And Exchange Board Of India (Stock Brokers And Sub-Brokers) Regulations, 1992**

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## **SCHEDULE 1 :- SCHEDULE I**

### **Securities And Exchange Board Of India (Stock Brokers And Sub-Brokers) Regulations, 1992**

S.O.780 (E):- 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 1 [\*\*\*\*\*] 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 (Stock Brokers and Sub-brokers) Regulations, 1992.
- (2) These regulations shall come into force on the date of their publication in the Official Gazette.

### **2. Definitions :-**

In these regulations, unless the context otherwise requires :-

- (a) "Act" means the Securities and Exchange Board of India Act, 1992 (15 of 1992);
- (aa) "certificate" means a certificate of registration issued by the Board;

(ab) "change of status or constitution" in relation to a stock broker or a sub-broker means any change in its status or constitution of whatsoever nature and includes-

(i) in case of a body corporate-

(A) amalgamation, demerger, consolidation or any other kind of corporate restructuring falling within the scope of section 391 of the Companies Act, 1956 (1 of 1956) or the corresponding provision of any other law for the time being in force;

(B) change in its managing director, whole-time director or director appointed in compliance with clause (v) of sub-rule (4A) of rule 8 of the Securities Contracts (Regulation) Rules, 1957; and

(C) any change in control over the body corporate; 1 Words with the previous approval of the Central Government" omitted by the SEBI (Stock Brokers and Sub-brokers) (Third Amendment) Regulations, 1998, w.e.f. 16-12-1998.

2 Inserted by the SEBI (StockBrokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7- 9-2006.

(ii) any change between the following legal forms - individual, partnership firm, Hindu undivided family, private company, public company, unlimited company or statutory corporation and other similar changes;

(iii) in case of a partnership firm any change in partners not amounting to dissolution of the firm;

(ac) "change in control", in relation to a stock broker or a sub-broker being a body corporate, means :-

(i) if its shares are listed on any recognised stock exchange, change in control within the meaning of regulation 12 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997;

(ii) in any other case, change in the controlling interest in the body corporate;

Explanation : For the purpose of sub-clause (ii), the expression "controlling interest" means an interest, whether direct or indirect, to the extent of at least fifty-one per cent of voting rights in the body corporate;]

[(ad)] "clearing corporation or clearing house" means the clearing corporation or clearing house of a recognised stock exchange to clear and settle trades in securities;

[(ae)] "clearing member" means a member of a clearing corporation or clearing house of the derivatives exchange or derivatives segment of an exchange 6 [or currency derivatives segment of an exchange], who may clear and settle transactions in securities;]

(aaa) 7 [\*\*\*]

(b) "form" means a form specified in Schedule I;

(c) "inspecting authority" means one or more persons appointed by the Board to exercise powers conferred under Chapter V of these regulations;

(d) "regulations" means Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Regulations, 1992;

(e) 8 [\*\*\*]

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

(fa) "self-clearing member" means a member of a clearing corporation or clearing house of the derivatives exchange or derivatives segment of a stock exchange 3 Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2000, w.e.f. 14-3-2000. 4 Clause (a) renumbered as clause ((ad) by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006 5 Clause (aa) renumbered as clause (ae) ) by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006 6 Inserted by the SEBI (Stock Brokers and Sub-Brokers)(Amendment) Regulations, 2008 w.e.f 11-08-2008. 7 Omitted by the SEBI (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002, w.e.f. 27-9-2002. 8 Omitted by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006. Prior to omission, it was read as, "rules means Securities and Exchange Board of India (Stock Brokers and Sub-brokers) Rules, 1992 who may clear and settle transactions on its own account or on account of its clients only, and shall not clear or settle transactions in securities for any other trading member(s);]

(g) "small investor" means any investor buying or selling securities on a cash transaction for a market value not exceeding rupees fifty thousand in aggregate on any day as shown in a contract note issued by the stock broker;

(ga) "stock exchange" means a stock exchange which is for the time being recognised by the Central Government or by the Board under section 4 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956);

(gb) "stock broker" means a member of a stock exchange;

(gc) "sub-broker" means any person not being a member of stock exchange who acts on behalf of a stock broker as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such stock brokers;]

[(gd)] "trading member" means a member of the derivatives exchange or derivatives segment of a stock exchange 13 [or currency derivatives segment of an exchange] and who settles the trade in the clearing corporation or clearing house through a clearing member;]

(h) all other words and expressions occurring in these regulations shall bear the same meaning as in the Act.

## **CHAPTER 2 REGISTRATION OF STOCK BROKERS**

### **3. Application For Registration Of Stock Broker :-**

(1) An application by a stock broker for grant of a certificate shall be made in Form A through the stock exchange or stock exchanges, as the case may be, of which he is admitted as a member.

(2) The stock exchange shall forward the application form to the Board as early as possible but not later than thirty days from the date of its receipt.

(3) Notwithstanding anything contained in sub-regulation (1), any application made by a stock broker prior to coming into force of these regulations containing such particulars or as near thereto as mentioned in the Form A shall be treated as an application made in pursuance of sub-regulation (1) and dealt with accordingly : 9 Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11- 2001. 10 Inserted by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7- 9-2006. [(ga)was renumbered as (gd) and before this the clause, the clauses (ga) to (gd) was inserted.] 11 Inserted by the SEBI (StockBrokers and Sub-brokers) (Amendment) Regulations, 2000, w.e.f. 14-3- 2000. 12 Clause (ga) renumbered as clause (gd) by the SEBI (StockBrokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006. 13 Inserted by the SEBI (Stock Brokers and Sub-Brokers) (Amendment) Regulations, 2008 w.e.f 11-08- 2008. 14 Words "and the rules" omitted by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006. Provided that the requirement of the payment of fees shall be the same as is referred to in sub-regulation (1) of regulation 10.

### **4. Furnishing Of Information, Clarification, Etc :-**

(1) The Board may require the applicant to furnish such further information or clarifications regarding the dealings in securities and

matter connected thereto to consider the application for grant of a certificate.

(2) The applicant or, its principal officer shall, if so required, appear before the Board for personal representation.

### **5. Consideration Of Application :-**

The Board shall take into account for considering the grant of a certificate all matters relating to buying, selling, or dealing in securities and in particular the following, namely, whether the stock broker-

- (a) is eligible to be admitted as a member of a stock exchange;
- (b) has the necessary infrastructure like adequate office space, equipments and man power to effectively discharge his activities;
- (c) has any past experience in the business of buying, selling or dealing in securities;
- (d) is subjected to disciplinary proceedings under the rules, regulations and byelaws of a stock exchange with respect to his business as a stock-broker involving either himself or any of his partners, directors or employees;
- [(e) is a fit and proper person.]

**5A.** Criteria For Fit And Proper Person :- For the purpose of determining whether an applicant or the stock broker, subbroker, trading member and clearing member is a fit and proper person, the Board may take into account the criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.

### **6. Procedure For Registration :-**

The Board on being satisfied that the stock-broker is eligible, shall grant a certificate in Form D to the stock-broker and send an intimation to that effect to the stock exchange or stock exchanges as the case may be. 17 [Provided that, subject to the conditions of regulation 6A, a stock broker holding a certificate of registration with respect to membership of a recognised stock exchange having nationwide trading terminals shall be eligible for trading on SME platform established by such stock exchange without obtaining a separate certificate of registration for trading on the SME platform. 15 Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 1998, w.e.f. 5-1-1998. 16 Substituted by the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, w.e.f. 26- 05-2008. Prior to its substitution, the

Regulation 5A as inserted by the Securities and Exchange Board of India (Criteria for Fit and Proper Person) Regulations, 2004, w.e.f. 10-03-2004, read as under:

"5A. Applicability of Securities and Exchange Board of India (Criteria for Fit and Proper Person) Regulations, 2004.- The Provisions of the Securities and Exchange Board of India (Criteria for Fit and Proper Person) Regulations, 2004 shall, as far as may be, apply to all applicants or the stock brokers, subbrokers, trading members and clearing members under these regulations 17 The proviso and explanation was inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2010 w.e.f. 13-04-2010. Explanation: For the purpose of this regulation, SME platform means a trading platform of a recognised stock exchange having nationwide trading terminals and permitted by the Board to list the securities issued in accordance with Chapter XA of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.]

**6A. Conditions Of Registration :-**

(1) Any registration granted by the Board under regulation 6 shall be subject to the following conditions, namely-

- (a) the stock broker holds the membership of any stock exchange;
- (b) he shall abide by the rules, regulations and bye-laws of the stock exchange which are applicable to him;
- (c) where the stock broker proposes to change his status or constitution, he shall obtain prior approval of the Board for continuing to act as such after the change;
- (d) he shall pay fees charged by the Board in the manner provided in these regulations; and
- (e) he shall take adequate steps for redressal of grievances, of the investors within one month of the date of receipt of the complaint and keep the Board informed about the number, nature and other particulars of the complaints received from such investors.

(2) Nothing contained in clause (c) of sub-regulation (1) shall affect the obligation to obtain a fresh registration under section 12 of the Act in a case where it is applicable.

**7. Stock Brokers To Abide By Code Of Conduct :-**

The stock broker holding a certificate shall at all times abide by the Code of Conduct as specified in Schedule II.

**8. Procedure Where Registration Is Not Granted :-**

(1) Where an application for grant of a certificate under regulation 3, does not fulfil the requirements mentioned in regulation 5, the Board may reject the application after giving a reasonable opportunity of being heard.

(2) The refusal to grant the registration certificate shall be communicated by the Board within thirty days of such refusal to the concerned stock exchange and to the applicant stating therein the grounds on which the application has been rejected.

(3) An applicant may, being aggrieved by the decision of the Board under subregulation (2) apply within a period of thirty days from the date of receipt of such intimation, to the Board for reconsideration of its decision. (4) The Board shall reconsider an application made under sub-regulation (3) and communicate its decision as soon as possible in writing to the applicant and to the concerned stock-exchange.

#### **9. Effect Of Refusal Of Certificate Of Registration :-**

A stock-broker, whose application for grant of a certificate has been refused by the Board, shall not, on and from the date of the receipt of the communication under sub-regulation (2) of regulation 8 buy, sell, or deal in securities as a stock-broker. Payment of fees and the consequences of failure to pay fees.

#### **10. Payment Of Fees And The Consequences Of Failure To Pay Fees :-**

(1) Every applicant eligible for grant of a certificate shall pay such fees and in such manner as specified in Schedule III 19 [or Schedule IIIA, as the case may be] : Provided that the Board may on sufficient cause being shown permit the stockbroker to pay such fees at any time before the expiry of six months from the date on which such fees become due.

(2) Where a stock-broker fails to pay the fees as provided in regulation 10, the Board may suspend the registration certificate, whereupon the stock-broker shall cease to buy, sell or deal in securities as a stock-broker.

### **CHAPTER 3 REGISTRATION OF SUB-BROKERS**

#### **11. Registration As Sub-Broker :-**

(1) No sub-broker shall act as such unless he holds a certificate granted by the Board under these regulations.

(2) No fresh certificate needs to be obtained under sub-regulation (1) where a subbroker merely changes his affiliation from one stock broker to another stock broker, being a member of the same stock exchange.]

(3) Subject to the provisions of regulation 12A, no fresh certificate need to be obtained under sub-regulation (1) where a registered sub-broker is affiliated to stock broker who is eligible to trade on SME platform.

Explanation: For the purpose of this regulation, SME platform means a trading platform of a recognised stock exchange having nationwide trading terminals and permitted by the Board to list the securities issued in accordance with Chapter XA of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.]

**11A.** Application For Registration Of Sub-Broker :-

(1) An application by a sub-broker for the grant of a certificate shall be made in Form B.

(2) The application for registration under sub-regulation (1) above, shall be accompanied by a recommendation letter in Form C from a stock-broker of a recognised stock exchange with whom he is to be affiliated along with two references including one from his banker.

(3) The application form shall be submitted to the stock exchange of which the stockbroker with whom he is to be affiliated is a member.

(4) The stock exchange on receipt of an application under sub-regulation (3) shall verify the information contained therein and shall also certify that the applicant is eligible for registration as per criteria specified in sub-regulation (5).

(5) The eligibility criteria for registration as a sub-broker shall be as follows, namely :-

(i) in the case of an individual;

(a) the applicant is not less than 21 years of age;

(b) the applicant has not been convicted of any offence involving fraud or dishonesty;

(c) the applicant has at least passed 12th standard equivalent examination from an institution recognised by the Government :

Provided that the Board may relax the educational qualifications on merits having regard to the applicants experience;

(d) the applicant is a fit and proper person;]

(ii) in the case of partnership firm or a body corporate the partners or directors, as the case may be, shall comply with the

requirements contained in clauses (a) to

(c) of sub-regulation (i);

[(iii) the applicant has the necessary infrastructure like adequate office space, equipment and manpower to effectively discharge his activities;

(iv) the applicant shall be a person recognized by the stock exchange as a subbroker affiliated to a member broker of the stock exchange.]

[(6) The stock exchange shall forward the application in Form B of such applicant along with the recommendation letter in Form C issued by the stock broker with whom he is affiliated and also the recognition letter in Form CA issued by the stock exchange to the Board within 30 days from the date of the receipt of the application.

## **12. Procedure For Registration :-**

(1) The Board on being satisfied that the sub-broker is eligible, shall grant a certificate in Form E to the sub-broker and send an intimation to that effect to the stock exchange or stock exchanges, as the case may be.

(2) The Board may grant a certificate of registration to the applicant subject to the terms and conditions 26 [laid down in sub-regulation (1) of regulation 12A].

### **12A. Conditions Of Registration :- .**

(1) Any registration granted by the Board under regulation 12 shall be subject to the following conditions, namely :- 23 Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 1998, w.e.f. 5-1-1998. 24 Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9- 2003. 25 Substituted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9- 2003. Prior to substitution, it was read as under, The stock exchange shall forward the application who comply with all the requirements specified in sub-regulations (1) to (5) to the Board as early as possible, but not later than thirty days from the date of its receipt." 26 Substituted for "as stated in rule 5" by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006. 27 Inserted by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7- 9- 2006.

- (a) he shall abide by the rules, regulations and bye-laws of the stock exchange which are applicable to him;
  - (b) where the sub-broker proposes to change his status or constitution, he shall obtain prior approval of the Board for continuing to act as such after the change;
  - (c) he shall pay fees charged by the Board in the manner provided in these regulations;
  - (d) he shall take adequate steps for redressal of grievances, of the investors within one month of the date of receipt of the complaint and keep the Board informed about the number, nature and other particulars of the complaints received from such investors; and
  - (e) he is authorized in writing by a stock-broker being a member of a stock exchange for affiliating himself in buying, selling or dealing in securities.
- (2) Nothing contained in clause (b) of sub-regulation (1) shall affect the obligation to obtain a fresh registration under section 12 of the Act in a case where it is applicable.

### **13. Procedure Where Registration Is Not Granted :-**

- (1) Where an application for grant of a certificate under regulation 28 [11A], does not fulfill the requirements mentioned in regulation 29 [11A], the Board may reject the application after giving a reasonable opportunity of being heard.
- (2) The refusal to grant the certificate shall be communicated by the Board within thirty days of such refusal to the concerned stock exchange and to the applicant in writing stating therein the grounds on which the application has been rejected.
- (3) An applicant may, being aggrieved by the decision of the Board under subregulation (2), within a period of thirty days from the date of receipt of such intimation, apply to the Board for reconsideration of its decision.
- (4) The Board shall reconsider an application made under sub-regulation (3) and communicate its decision as soon as possible in writing to the applicant and to the concerned stock exchange.

### **14. Effect Of Refusal :-**

A person whose application for grant of a certificate has been refused by the Board shall, on and from the date of the communication of refusal under regulation 13, cease to carry on any activity as a sub-broker.

## **15. General Obligations And Inspection :-**

(1) The sub-broker shall-

(a) pay the fees as specified in Schedule III;

(b) abide by the Code of Conduct specified in Schedule II;

(c) enter into an agreement with the stock-broker for specifying the scope of his authority and responsibilities;

(d) comply with the rules, regulations and bye-laws of the stock exchange; 28 Substituted for "11" by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006.

29 Substituted for "11" by the SEBI (Stock Brokers and Sub-brokers) (Second Amendment) Regulations, 2006, w.e.f. 7-9-2006.

30 Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003. (e) not be affiliated to more than one stock broker of one stock exchange.]

(2) The sub-broker shall keep and maintain the books and documents specified in regulation 17 except for the books and documents referred to in clauses (h), (i), (j), 31 [\*\*\*] (l) and (m) of sub-regulation (1) of regulation 17.

### **15A. Director Not To Act As Sub-Broker :-**

No director of a stock broker shall act as a sub-broker to the same stock broker.]

## **16. Application Of Chapters Iv, V & Vi :-**

The provisions of Chapters IV, V and VI of these regulations shall apply to a subbroker as they apply in case of a stock broker.

### **16A. Application For Registration Of Trading Member Or Clearing Member :-**

(1) An application for grant of certificate of registration by a trading member of a derivatives exchange or derivatives segment of a stock exchange shall be made in Form AA of Schedule I, through the concerned derivatives exchange or derivative segment of a stock exchange of which he is a member.

(2) An application for grant of certificate of registration by a clearing member 34 [or self-clearing member] of the clearing corporation or clearing house of a derivatives exchange or derivatives segment of a stock exchange, shall be made in Form AA of Schedule I, through the concerned clearing corporation or clearing house of which he is a member : Provided that a trading member who also seeks to act as a clearing member 35 [or self-

clearing member] shall make separate applications for each activity in Form AA of Schedule I.

(3) The derivatives exchange or segment or clearing house or corporation as the case may be shall forward the application to the Board as early as possible but not later than thirty days from the date of its receipt.

**16B.** Furnishing Of Information, Clarification, Etc :-

(1) The Board may require the applicant or the concerned stock exchange or segment or clearing house or corporation to furnish such other information or clarifications, regarding the trading and settlement in derivatives and matters connected thereto, to consider the application for grant of a certificate.

(2) The applicant or its principal officer shall, if so required, appear before the Board for personal representation.

**16C.** Consideration Of Application :-

(1) The Board shall take into account for considering the grant of a certificate all matters relating to dealing and settlement in derivatives and in particular the following, namely, whether the applicant-

(a) is eligible to be admitted as a trading member of a derivatives exchange and/or a clearing member of a derivatives exchange or derivatives segment of a stock exchange or clearing corporation or house;

(b) has the necessary infrastructure like adequate office place, equipment and man-power to effectively undertake his activities;

(c) is subjected to disciplinary proceedings under the rules, regulations and byelaws of any stock exchange with respect to his business as a stock broker or member of a derivatives exchange or segment or member of clearing house or corporation involving either himself or any of his partners, directors or employees;

(d) has any financial liability which is due and payable to the Board under these regulations.]

(2) An applicant who desires to act as a trading member, in addition to complying with the requirements of sub-regulation (1), shall have a net-worth as may be specified by the derivatives exchange or segment from time to time and the approved user and sales personnel of the trading member have passed a certification programme approved by the Board.

(3) An applicant who desires to act as a clearing member, in addition to complying with the requirements of sub-regulation (1),

shall have a minimum net worth of Rs. 300 lacs and shall deposit at least a sum of Rs. 50 lacs or higher amount with the clearing corporation or clearing house of the derivatives exchange or derivatives segment in the form specified from time to time.

[(4) An applicant who desires to act as a self-clearing member, in addition to complying with the requirements of sub-regulation (1), shall have a minimum net worth of Rs. 100 lacs and shall deposit at least a sum of Rs. 50 lacs or higher amount with the clearing corporation or clearing house of the derivatives exchange or derivatives segment in the form specified from time to time.]

Explanation : For the purpose of sub-regulations 38 [(2), (3) and (4)], the expression net worth shall mean paid up capital and free reserves and other securities approved by the Board from time to time (but does not include fixed assets, pledged securities, value of members card, non-allowable securities (unlisted securities), bad deliveries, doubtful debts and advances (debts or advances overdue for more than three months or debts or advances given to the associate persons of the member), prepaid expenses, losses, intangible assets and 30% value of marketable securities).

**16D.** Procedure For Registration :- The Board on being satisfied that the applicant is eligible, shall grant a certificate in Form DA of Schedule I, to the applicant and send an intimation to that effect to the derivatives segment of the stock exchange or derivatives exchange or clearing corporation or clearing house, as the case may be.

**16E.** Procedure Where Registration Is Not Granted :-

(1) Where an application for the grant of a certificate under regulation 16A does not fulfil the requirements specified in regulation 16C of the Regulations, the Board may reject the application of the applicant after giving a reasonable opportunity of being heard.

(2) The refusal to grant the certificate of registration shall be communicated by the Board within 30 days of such refusal to the concerned segment of the stock exchange, or clearing house or corporation and to the applicant stating therein the grounds on which the application has been rejected.

(3) An applicant may, if aggrieved by the decision of the Board under sub-regulation (2) apply within a period of thirty days from

the date of receipt of such information to the Board for reconsideration of its decision.

(4) The Board shall reconsider an application made under sub-regulation (3) and communicate its decision as soon as possible in writing to the applicant and to the concerned segment of the stock exchange or clearing house or corporation.

**16F.** Effect Of Refusal Of Certificate Of Registration :- An applicant, whose application for the grant of a certificate of registration has been refused by the Board, shall not, on and from the date of receipt of the communication under sub-regulation (2) or sub-regulation (4) of regulation 16E, deal in or settle the derivatives contracts as a member of the derivatives exchange or derivatives segment or clearing corporation or clearing house.

**16G.** Payment Of Fees And Consequences Of Failure To Pay Fees :-

(1) Every applicant eligible for grant of a certificate as a trading or clearing member 39 [or self-clearing member] shall pay such fee and in such manner as specified in Schedule IV.

(2) Where a trading or clearing member 40 [or self-clearing member] fails to pay the fees as provided in sub-regulation (1), the Board may suspend or cancel the registration certificate after giving an opportunity of being heard, whereupon the trading and clearing member 41 [or self-clearing member] shall cease to deal in or settle the derivatives contract as a member of the derivatives segment of the exchange or derivatives exchange or clearing corporation or clearing house. 39 Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11- 2001. 40 Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11- 2001. 41 Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2001, w.e.f. 15-11- 2001.

**16H.** Trading Member/Clearing Member Or Self-Clearing Member] To Abide By The Code Of Conduct, Etc :-

(1) The code of conduct specified for the stock brokers as stipulated in Schedule II, shall be applicable mutatis mutandis to the trading member, clearing member and such members shall at all times abide by the same.

(2) The trading member and clearing member shall abide by the code of conduct as specified in the rules, bye-laws and regulations of the derivatives exchange or derivatives segment of the exchange.

(3) The trading members shall obtain details of the prospective clients in know your client format as specified by the Board before executing an order on behalf of such client.

(4) The trading member shall mandatorily furnish risk disclosure document disclosing the risk inherent in trading in derivatives to the prospective clients in the form specified by the derivatives exchange or derivatives segment.

(5) The trading or clearing member shall deposit margin or any other deposit and shall maintain position or exposure limit as specified by the Board or the concerned exchange or segment or clearing corporation or clearing house from time to time.

[(6) The provisions of sub-regulations (1) to (5) shall be applicable mutatis mutandis to a self-clearing member.

**16I.** Chapters Iv, V And Vi Applicable :-

(1) The provisions of Chapters IV, V and VI shall be applicable mutatis mutandis to a trading member and a clearing member 44 [or self-clearing member] and such members shall abide by the provisions of the said Chapters.

(2) In the chapters referred to in sub-regulation (1), the words stock broker shall refer to trading member or clearing member 45 [or self-clearing member] and the words stock exchange shall refer to derivatives exchange or derivatives segment of an exchange or clearing corporation or clearing house.

(3) The Board may issue such directions under section 11B of the Act to the trading member or clearing member 46 [or self-clearing member] as may be deemed appropriate and such member shall abide by such directions.

(4) In case of violation of any regulation, the trading or the clearing member

**CHAPTER 4** GENERAL OBLIGATIONS AND RESPONSIBILITIES

**17.** To Maintain Proper Books Of Account, Records, Etc :-

(1) Every Stock Broker shall keep and maintain the following books of account, records and documents, namely :-

- (a) Register of transactions (Sauda Book);
- (b) Clients ledger;
- (c) General ledger;
- (d) Journals;
- (e) Cash book;
- (f) Bank pass book;
- [(g) Documents register containing, inter alia, particulars of securities received and delivered in physical form and the statement of account and other records relating to receipt and delivery of securities provided by the depository participants in respect of dematerialized securities;]
- (h) 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;
- (i) Counterfoils or duplicates of contract notes issued to clients;
- (j) Written consent of clients in respect of contracts entered into as principals;
- (k) Margin deposit book;
- (l) Registers of accounts of sub-brokers;
- (m) An agreement with a sub-broker specifying the scope of authority, and responsibilities of the Stock Broker and such Sub-broker;
- [(n) An agreement with the sub-broker and with the client of the sub-broker to establish privity of contract between the stock broker and the client of the sub-broker.]

(2) Every stock broker shall intimate to the Board the place where the books of account, records and documents are maintained.

(3) Without prejudice to sub-regulation (1), every stock broker shall, after the close of each accounting period furnish to the Board if so required as soon as possible but not later than six months from the close of the said period a copy of the audited balance sheet and profit and loss account as at the end of the said accounting period :

Provided that, if it is not possible to furnish the above documents within the time specified, the Stock Broker shall keep the Board informed of the same together with the reasons for the delay and the period of time by which such documents would be furnished. 52 Substituted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9- 2003. Prior to substitution it was read as under, "Documents register should include particulars of shares and securities received and delivered"

53 Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9- 2003.

**18. Maintenance Of Books Of Account And Records :-**

Every stock broker shall preserve the books of account and other records maintained under regulation 17 for a minimum period of five years.

**18A. Appointment Of Compliance Officer :-**

(1) Every stock broker shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by the Board or the Central Government and for redressal of investors grievances.

(2) The compliance officer shall immediately and independently report to the Board any non-compliance observed by him.

**18B. Stock Broker Not To Deal With Unregistered Sub-Broker :-**

The stock broker shall not deal with any person as a sub-broker unless such person has been granted certificate of registration by the Board under sub-regulation (1) of Regulation 12.

**CHAPTER 5 PROCEDURE FOR INSPECTION**

**19. Boards Right To Inspect :-**

(1) Where it appears to the Board so to do, it may appoint one or more persons as inspecting authority to undertake inspection of the books of account, other records and documents of the stock brokers for any of the purposes specified in subregulation (2).

(2) The purposes referred to in sub-regulation (1) shall be as follows, namely :-

(a) to ensure that the books of account and other books are being maintained in the manner required;

(b) that the provisions of the Act, rules, regulations and the provisions of the Securities Contracts (Regulation) Act, and the rules made thereunder are being complied with;

(c) to investigate into the complaints received from investors, other stock brokers, sub-brokers or any other person on any matter having a bearing on the activities of the stock brokers; and

(d) to investigate suo motu, in the interest of securities business or investors interest, into the affairs of the stock-broker.

## **20. Procedure For Inspection :-**

(1) Before undertaking any inspection under regulation 19, the Board shall give a reasonable notice to the stock broker for that purpose.

(2) Notwithstanding anything contained in sub-regulation (1), where the Board is satisfied that in the interest of the investors or in public interest no such notice 54 Inserted by the SEBI (Investment Advice by Intermediaries) (Amendment) Regulations, 2001, w.e.f. 29- 5-2001. 55 Inserted by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 23-9-2003. should be given, it may by an order in writing direct that the inspection of the affairs of the stock broker be taken up without such notice.

(3) On being empowered by the Board, the inspecting authority shall undertake the inspection and the stock-broker against whom an inspection is being carried out shall be bound to discharge his obligations as provided under regulation 21.

## **21. Obligations Of Stock-Broker On Inspection By The Board :-**

(1) It shall be the duty of every director, proprietor, partner, officer and employee of the stock-broker, who is being inspected, to produce to the inspecting authority such books, accounts and other documents in his custody or control and furnish him with the statements and information relating to the transactions in securities market within such time as the said officer may require.

(2) The stock-broker shall allow the inspecting authority to have reasonable access to the premises occupied by such stock-broker or by any other person on his behalf and also extend reasonable facility for examining any books, records, documents and computer data in the possession of the stock-broker or any other person and also provide copies of documents or other materials which, in the opinion of the inspecting authority are relevant.

(3) The inspecting authority, in the course of inspection, shall be entitled to examine or record statements of any member, director, partner, proprietor and employee of the stock-broker.

(4) It shall be the duty of every director, proprietor, partner, officer and employee of the stock broker to give to the inspecting authority all assistance in connection with the inspection, which the stock broker may reasonably be expected to give.

## **22. Submission Of Report To The Board :-**

The inspecting authority shall, as soon as may be possible, submit an inspection report to the Board.

## **23. Action On Inspection Or Investigation Report :-**

[The Board shall after consideration of inspection or investigation report take such action as it may deem fit and appropriate including action under 57 [ Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008], Chapter VIA of the Act or section 24 of the Act.

## **24. Appointment Of Auditor :-**

Notwithstanding anything contained above, the Board may appoint a qualified auditor to investigate into the books of account or the affairs of the stock-broker: Provided that, the auditor so appointed shall have the same powers of the inspecting authority as mentioned in regulation 19 and the obligations of the stockbroker in regulation 21 shall be applicable to the investigation under this regulation. 56 Substituted by the SEBI (StockBrokers and Sub-brokers) (Second Amendment) Regulations, 2003, w.e.f. 20-11-2003. Earlier it was substituted by the SEBI(Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations, 2002. w.e.f 27-09-2002. 57 Substituted by the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, w.e.f. 26- 05-2008.

## **CHAPTER 6 PROCEDURE FOR ACTION IN CASE OF DEFAULT**

### **25. Liability For Contravention Of The Act, Rules Or The Regulations :-**

A stock broker or a sub-broker who contravenes any of the provisions of the Act, rules or regulations framed thereunder shall be liable for any one or more of the following actions-

- (i) Monetary penalty under Chapter VIA of the Act.
- (ii) Penalties as specified under 59 [Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008] including suspension or cancellation of certificate of registration as a stock broker or a sub-broker,
- (iii) Prosecution under section 24 of the Act.

### **26. Liability For Monetary Penalty :-**

A stock broker or a sub-broker shall be liable for monetary penalty in respect of the following violations, namely-

- (i) Failure to file any return or report with the Board.
- (ii) Failure to furnish any information, books or other documents within 15 days of issue of notice by the Board.
- (iii) Failure to maintain books of account or records as per the Act, rules or regulations framed thereunder.
- (iv) Failure to redress the grievances of investors within 30 days of receipts of notice from the Board.
- (v) Failure to issue contract notes in the form and manner specified by the Stock Exchange of which such broker is a member.
- (vi) Failure to deliver any security or make payment of the amount due to the investor within 48 hours of the settlement of trade unless the client has agreed in writing otherwise.
- (vii) Charging of brokerage which is in excess of brokerage specified in the regulations or the bye-laws of the stock exchange.
- (viii) Dealing in securities of a body corporate listed on any stock exchange on his own behalf or on behalf of any other person on the basis of any unpublished price sensitive information.
- (ix) Procuring or communicating any unpublished price sensitive information except as required in the ordinary course of business or under any law.
- (x) Counselling any person to deal in securities of any body corporate on the basis of unpublished price sensitive information.
- (xi) Indulging in fraudulent and unfair trade practices relating to securities.
- (xii) Execution of trade without entering into agreement with the client under the Act, rules or regulations framed thereunder or failure to maintain client registration form or commission of any irregularities in maintaining the client agreement. 58 Regulations 25 to 28 substituted for regulation 25 by the SEBI (Stock Brokers and Sub-brokers) (Amendment) Regulations, 2003, w.e.f. 20-11-2003. 59 Substituted by the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, w.e.f. 26-05-2008.
- (xiii) Failure to segregate his own funds or securities from the clients funds or securities or using the securities or funds of the client for his own purpose or for purpose of any other client.
- (xiv) Acting as an unregistered sub-broker or dealing with unregistered sub-brokers.
- (xv) Failure to comply with directions issued by the Board under the Act or the regulations framed thereunder.
- (xvi) Failure to exercise due skill, care and diligence.
- (xvii) Failure to seek prior permission of the Board in case of any change in its status and constitution.

- (xviii) Failure to satisfy the net worth or capital adequacy norms, if any, specified by the Board.
- (xix) Extending use of trading terminal to any unauthorized person or place.
- (xx) Violations for which no separate penalty has been provided under these regulations.

## **27. Liability For Action Under The Enquiry Proceeding Regulations :-**

A stock broker or a sub-broker shall be liable for any action as specified in 60 [Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008] including suspension or cancellation of his certificate of registration as a stock broker or a sub-broker, as the case may be, if he-

- (i) ceases to be a member of a stock exchange; or
- (ii) has been declared defaulter by a stock exchange and not re-admitted as a member within a period of six months; or
- (iii) surrenders his certificate of registration to the Board; or
- (iv) has been found to be not a fit and proper person by the Board under these or any other regulations; or
- (v) has been declared insolvent or order for winding up has been passed in the case of a broker or sub-broker being a company registered under the Companies Act, 1956; or
- (vi) or any of the partners or any whole-time director in case a broker or sub-broker is a company registered under the Companies Act, 1956 has been convicted by a court of competent jurisdiction for an offence involving moral turpitude; or
- (vii) fails to pay fee as per Schedule III of these regulations; or
- (viii) fails to comply with the rules, regulations and bye-laws of the stock exchange of which he is a member; or
- (ix) fails to co-operate with the inspecting or investigating authority; or
- (x) fails to abide by any award of the Ombudsman or decision of the Board under the Securities and Exchange Board of India (Ombudsman) Regulations, 2003; or
- (xi) fails to pay the penalty imposed by the Adjudicating Officer; or
- (xii) indulges in market manipulation of securities or index; or
- (xiii) indulges in insider trading in violation of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992; or 60 Substituted by the Securities and Exchange Board of India (Intermediaries) Regulations, 2008, w.e.f. 26-05-2008.
- (xiv) violates Securities and Exchange Board of India

(Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003; or  
(xv) commits violation of any of the provisions for which monetary penalty or other penalties could be imposed; or  
(xvi) fails to comply with the circulars issued by the Board; or  
(xvii) commits violations specified in regulation 26 which in the opinion of the Board are of a grievous nature.

**28. Liability For Prosecution :-**

A stock broker or a sub-broker shall be liable for prosecution under section 24 of the Act for any of the following violations, namely :-

(i) Dealing in securities without obtaining certificate of registration from the Board as a stock broker or a sub-broker.

(ii) Dealing in securities or providing trading floor or assisting in trading outside the recognized stock exchange in violation of provisions of the Securities Contracts (Regulation) Act, 1956 or rules made or notifications issued thereunder.

(iii) Market manipulation of securities or index.

(iv) Indulging in insider trading in violation of Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992.

(v) Violating the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.

(vi) Failure without reasonable cause-

(a) to produce to the investigating authority or any person authorized by him in this behalf, any books, registers, records or other documents which are in his custody or power; or

(b) to appear before the investigating authority personally or to answer any question which is put to him by the investigating authority; or

(c) to sign the notes of any examination taken down by the investigating authority.

(vii) Failure to pay penalty imposed by the adjudicating officer or failure to comply with any of his directions or orders.

**SCHEDULE 1**

SCHEDULE I  
FORMS