	BSE Limited **Regd. Office: P. J. Tower, Floor 25,** **Dalal Street, Fort, Mumbai 400 001**	

BYE-LAWS

OF

THE DERIVATIVES SEGMENT

OF

BSE LIMITED

(Amended upto 8th August, 2012)

Rules and Bye-Laws were amended to facilitate commencement of

CURRENCY DERIVATIVES SEGMENT

Approved by Governing Council at its meeting held on 5th September, 2008

Approved by Securities & Exchange Board of India vide its letter No.MRD/DSA/SL/137935/2008 dated 16th September, 2008

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CHAPTER I

1. DEALINGS ON THE DERIVATIVES SEGMENT

Member

1.1. Unless otherwise specified or unless the context otherwise requires, in these Bye-laws, the term "Member" shall mean a person registered by the Derivatives Segment as a Trading Member and/or a Clearing Member and the term "member of the Exchange" shall mean a member who has been admitted as a member of the Exchange, i.e. a member of the Cash Segment of the Exchange. Unless otherwise specified or unless the context otherwise requires, in these Bye-laws (i) the term "Trading Member" shall include a Self Clearing Member and (ii) the term "Clearing Member" shall include a Custodian Clearing Member and a Self Clearing Member.

1.2. A reference to a Trading Member's position in relation to a Clearing Member shall, unless the context otherwise requires, include both the Trading Member's own positions as well as the Trading Member's Client's positions.

1.3 Whenever the word "Member" appears in the Rules, Bye-laws and Regulations, it shall be deemed to include a firm which carries on the business of the Member on the Derivatives Segment, unless the context otherwise indicates.

Business Days/Hours.

1.4. The Derivatives Segment shall be open on such days and during such hours as the Derivatives Segment may from time to time determine.

Trading/Clearing Days/Hours.

1.5. Trading and clearing shall take place on the Derivatives Segment on such days and during such hours as the Derivatives Segment may from time to time determine.

Announcement

1.6. The Derivatives Segment shall from time to time announce the Business, Trading and Clearing Hours/Days and all modifications thereto.

Systems

1.7. Trading, Clearing and such other matters as the Derivatives Segment may specify shall take place on the Derivatives Segment's computer systems (hereinafter referred to as **"the System"**).

Limitation of Liability

1.8 Save as otherwise specifically provided in these Bye-laws, in promoting, facilitating, assisting, regulating, managing and operating the Derivatives Segment or Clearing House, the Exchange, the Derivatives Segment, the Clearing House and/or any board, council, official or employee thereof shall not incur and shall not be deemed to have incurred any liability for anything done or omitted in good faith. Accordingly no claim or recourse, in respect of or

in relation to any dealing in Derivatives or any matter connected therewith shall lie against the Exchange, the Derivatives Segment, the Clearing House and/or any board, council, official or employee for anything done or omitted in good faith.

Protection for Acts Done in Good Faith

1.9. No claim, suit, prosecution or other legal proceedings shall lie against the Exchange, the Derivatives Segment, the Clearing House and/or any board, council, official or employee acting for the Exchange, the Derivatives Segment or the Clearing House in respect of anything which is done in good faith, done or omitted or intended to be done or omitted in pursuance of any order or other binding directive issued under any law or delegated legislation for the time being in force or in purported exercise of any power under the Rules, Bye-laws and Regulations of the Exchange.

Use of Approved Workstation

1.10. Subject to these Rules, Bye-laws and Regulations, a Member may access and/or trade or otherwise interact with the System only through Approved Workstation(s) located at Approved Office(s) of that Member. The Member shall use only such equipment and software as is specified, provided or approved by the Derivatives Segment from time to time for the purpose of trading, clearing, settlement or otherwise interacting with the System. A Member shall not permit any person other than an Approved User to use his Approved Workstation or otherwise access, trade on, clear on, settle on or interact with the System.

System – Generally

1.11 (i) Access to the Trading System shall be made available to Trading Members for such purposes, in such manner and subject to such terms and conditions as the Governing Council or the Chief Executive Officer of the Derivatives Segment may determine from time to time.

(ii) Access to the Clearing System shall be made available to Clearing Members for such purposes, in such manner and subject to such terms and conditions as the Clearing Council or the Chief Executive Officer of the Clearing House may determine from time to time.

Terms of Trading/Clearing

1.12 The Derivatives Segment and/or the Clearing House may from time to time specify the manner in which and the terms and conditions on which Members may access, trade on, clear on, settle on or otherwise interact with the System and every Member shall abide by the same.

Adjustments relating To Corporate Actions and Other Matters

[1]1.12A The Derivative Segment and/or the Clearing House shall have the right to (but shall not be obliged to) adjust and modify the terms of any Options Contract(s) and give other appropriate directions to reflect corporate actions

[1] Inserted by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

and other factors relating to any Underlying Security including, without limitation, abnormal dividend, bonus issues, mergers, demergers, stock splits and consolidations. Such adjustments, modifications and other directions will be announced by the Derivative Segment or the Clearing House in line with the parameters, if any, laid down by SEBI and will be effective in respect of such transactions as may be specified by the Clearing House or the Derivative Segment.

Explanation: For the purpose of this Bye-law the term "abnormal dividend", in relation to a particular security, shall mean dividend in excess of such rate or amount as the Derivatives Segment or the Clearing House may from time to time prescribe in relation to that security. The Derivatives Segment or the Clearing House may from time to time modify such rate or amount with reference to any particular security and may prescribe different rates and amounts for different securities.

Withdrawal of Access To the System

1.13 The Derivatives Segment or the Clearing House may withdraw or restrict access to the System in whole or in part and in respect of any Member or Members for non-compliance with any of these Bye-laws or in such other circumstances as, in the opinion of the Derivatives Segment, justify such withdrawal or restriction.

Inspection of System

1.14 The Derivatives Segment shall have the right to, at any time, inspect the Approved Workstation and the equipment and software used for accessing the System.

Adoption of Security Procedure

1.15 Every Member shall adopt such security and other procedures as may be specified by the Derivatives Segment from time to time.

Failure of Authorised Workstation

1.16 In the event of failure of a Member's workstation and/or the loss of access to the Trading System, the Exchange may at its discretion undertake, although not guarantee, on behalf of the Member, to carry out necessary functions which the Member is eligible for on a valid request from the Member subject to such terms and conditions which the Exchange may deem necessary to be imposed. The Exchange shall entertain such requests only if such requests are made in a manner prescribed by the Exchange. The Member shall be accountable for the functions executed by the Exchange on his / their behalf and shall indemnify the Exchange against any loss or costs arising out of the above situation.

Common Pool in Case of Failure

1.17 In case of failure of the Approved Workstation of a Member or in such other circumstances as the Derivatives Segment think fit, the Derivatives Segment may permit a common pool facility to Members as per the norms, terms and conditions specified by it.

TRADING PARAMETERS

1.18 Trading on the Derivatives Segment shall take place in such manner as the Derivatives Segment may from time to time specify. The Derivatives Segment shall be entitled to determine all matters relating to trading on the Derivatives Segment. In particular and without prejudice to the generality of the aforesaid and in consonance with any guidelines and parameters issued or specified by SEBI the Derivatives Segment shall be entitled to specify:-

1.18.1 the tick size in which orders can be entered into the System;

1.18.2 exposure, trading, clearing and other limits in respect of any Member;

1.18.3 price bands;

1.18.4 the Regular/Market lot size in which orders can be placed;

1.18.5 that every Member shall be required to specify buy or sell orders as either an open order or a close order.

1.18.6 That an order book shall be maintained on the Trading System and shall specify various conditions of the order that shall make it eligible to be placed. The Trading System shall automatically generate a unique order identification number at the time of order entry itself.

1.18.7 the maximum permissible open position in respect of each type of Derivatives Contract.

1.18.8 that off-line entries (i.e. outside trading hours) are permitted. Such orders shall be stored by the System but shall be executed only when the market opens for trading.

[1]1.19 Without prejudice to the generality of the aforesaid and in consonance with any guidelines and parameters issued or specified by SEBI the Derivatives Segment may specify the guidelines and parameters in respect of: -

1.19.1 the manner and circumstances in which orders can be placed, modified, deleted and retained in the System;

1.19.2 the manner and circumstances in which positions can be netted out, squared off, closed out or offset;

1.19.3 the priority for execution of orders;

1.19.4 the Derivatives which can be traded and the specifications thereof;

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

1.19.5 the type and amount of margins, the method of computation and collection of margins, the time of payment of margins, the manner and circumstances in which margins are to be paid, adjusted or returned and all other matters relating to margins;

1.19.6 the manner of settlement and clearing of trades / Derivatives contracts;

1.19.7 the type of contracts which can be entered into and/or which are not permitted;

1.19.8 the procedure for registration of Clients;

1.19.9 dealings with Clients

1.19.10 Relationships, rights and obligations between Trading Members and Clearing Members, Trading Members inter se and Clearing Members inter se.

1.19.11 Maintenance of accounts, records, books, registers, etc. and inspection thereof; and

1.19.12 Resolution of complaints of Clients and members;

1.19.13 Resolution of complaints between Members inter se.

1.19.14 Arbitration between Clients and Members;

1.19.15 Arbitration between Members *inter se*;

Only Permitted Derivatives may Trade

[1]1.20 Trading/Clearing Members shall trade/clear only in such Derivatives as are permitted by the Derivatives Segment and SEBI. The Derivatives Segment shall have the power to withdraw from trading all or any Derivatives Contracts in which no Open Positions exist. In the event any Open Positions exist in respect of any Derivative Contracts, then the Derivatives Segment shall have the power to withdraw from trading all or any such Derivatives Contracts, subject to the approval of SEBI.

Settlement of Trades

1.21 Unless the Derivatives Segment otherwise permits, all trades shall be entered into on the Derivatives Segment and shall be cleared and settled by the Trading Members themselves as Clearing Members (in cases where the Trading Members are also Clearing Members) or through other Clearing Members in accordance with the applicable Rules, Bye-laws, Regulations and other provisions.

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

Payment of Option Premium

[1]1.21A The Option Premium shall be paid by the buyer of the Option to the seller of the Option in the manner and at the time prescribed by the applicable Rules, Bye-Laws and Regulations and other provisions.

DEALINGS IN CONTRACTS

Contract Expiration

[2]1.22 Contracts will expire on a pre-determined date, and the time upto which the Contract will be available for trading shall be notified by the Derivatives Segment in advance.

Types of Contracts Specified

1.23 All Derivatives Contract specifications will be announced by the Derivatives Segment in advance.

Suspension of Trading

1.24 The Derivatives Segment may at its discretion suspend trading in any Derivatives Contract(s) and on such grounds as it thinks fit and proper including, *inter alia*, on the following grounds:

1.24.1 suspension of trading in the underlying securities ;
1.24.2 for protection of the interests of investors ;
1.24.3 for the purpose of maintaining a fair and orderly market.

Revocation of Suspension

1.25 The Derivatives Segment may revoke suspension of trading in any Derivatives Contract(s) at any time. If trading has been suspended or halted in a particular Derivatives Contract or in all contracts, the Derivatives Segment may determine in its absolute discretion when trading in any/all of those contracts may be resumed.

Client or Proprietary Trades

1.26 Trading Members may trade in Derivatives Contracts on the System on account of their Clients or on their own account unless otherwise specified by the Derivatives Segment. Trading shall be subject to such conditions as the Derivatives Segment may specify from time to time.

Segregation of Trades

1.27 Every Member shall segregate trading by him on his own account from that of his Clients in the manner provided in Chapter VIII of these Bye-laws and also in such manner as the Derivatives Segment may additionally provide.

Transactions of Director or Employee

1.28 Transactions entered into on behalf of a, director or employee of the Member or transactions in which a director or employee of the Member has beneficial

[1] Inserted by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.
[2] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

interest, shall be considered as those of a Client of that Member and margins shall be collected from each such Client separately.

Restrictions on Dealing

1.29 The Derivatives Segment may, at any time, restrict, conditionally or unconditionally, a Member from dealing in or clearing a specified Derivatives Contract or a group of Derivative Contracts or all Derivative Contracts.

Liability for Trades

1.30 A Member shall be liable for all trades executed and other instructions or data transmitted to the System from his Approved Workstations. A Member shall be responsible for all the actions of his Authorised Persons/Approved Users.

ORDER MANAGEMENT

Order Instructions

1.31 Trading Members shall ensure that order instructions are obtained from Clients before placing an order on the System and shall keep relevant documents and records of the order instructions and of the completion or otherwise of the orders as per the Derivatives Segment Rules, Bye-laws and Regulations, SEBI Regulations and the Securities Contracts (Regulation) Rules, 1957 .

Entering of Client Identification Number

1.32 Every Member shall, when entering an order or executing a Trade, enter in the System the Client Identification Number as per the Member's own office records and the Client Identification Number mentioned in the Client Registration Form.

Supply of Order Details

1.33 A Trading Member shall make available to his Client the order number generated by the System and copies of the order/trade confirmation slip/modification slip wherever applicable.

Amendment or Cancellation of Orders

1.34 The Derivatives Segment may from time to time specify the procedures and conditions for amendment or cancellation of orders.

Types of Orders

1.35 Subject to the restrictions, if any, specified by SEBI from time to time, the Derivatives Segment shall be entitled to stipulate from time to time, the kind of orders that a Trading Member can place in the System and the order attributes thereof, which may include:-

Market order/Limit order
Stop loss
Immediate or cancel
Good till day
Good till cancelled
Good till date
Good till days

ORDER VALIDATION

Validation Requirements

1.36 Orders entered into the System by Trading Members may be subject to various validation requirements as may be specified by the Derivatives Segment from time to time including trading parameters, exposure limits and/or other restrictions. The orders that do not meet the validation requirements may not be accepted by the System.

MATCHING RULES

Order Matching Algorithms

1.37 The Derivatives Segment shall be entitled to specify from time to time the order matching algorithms and the matching rules and parameters that shall be followed by the System.

Power to Modify

1.38 The Derivatives Segment shall be entitled to modify or change the matching algorithms and the matching rules and parameters at any time when it considers it necessary to do so.

Withdrawal or Modification of Matching

1.39 Where the Derivatives Segment feels that it is in the interest of the market to do so, it may at any time withdraw or modify any form of matching in the case of a particular Derivatives Contract or for any class of Derivatives Contracts or for the market as a whole.

Allocation of Exercise Against Obligations

[1]1.39A The Derivative Segment or Clearing house shall be entitled to allocate an exercise of an Options Contract against the obligation of an Option Seller/Writer on a random selection basis or any other method as may be decided by the Derivatives Segment or Clearing House from time to time and advance notice of such method shall be given to the members.

CONTRACT NOTE

Contract Note

1.40(i) Every Trading Member shall issue a contract note to his Clients for all trades executed for or with the Client. the contract note shall be in such format, contain all such details, and be issued in such manner and within such time as may be specified by the Derivatives Segment.

(ii) Unless the Derivatives Segment otherwise determines, the contract notes rendered by members to Clients shall state that the contract is subject to the Rules, Bye-laws, Regulations, Business Requirement Specifications, orders, notices, and decisions of the Derivatives Segment and the Clearing House and subject to arbitration as provided in the Rules, Bye-laws and Regulations of the

[1] Inserted by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

Derivatives Segment and that save and except as otherwise specifically provided in the Rules, Bye-laws and Regulations of the Derivatives Segment, the same shall be subject to the exclusive jurisdiction of the courts in Mumbai. The contract notes shall not contain any provision inconsistent with the Rules, Bye-laws and Regulations of the Derivatives Segment.

Contract Notes Issued by Firms

1.41 In case of a firm recognised under the Rules, Bye-laws and Regulations of the Derivatives Segment every contract shall be signed only in the name of the firm and no contract note shall be issued in the name of an individual partner or the sole proprietor of the firm.

Signature

1.42 A contract note shall be signed by a Trading Member or his Authorised Person or Constituted Attorney authorised to do so.

Time Stamped

1.43 Every Contract note shall be time stamped with the time of receipt of the order and the time of execution of the order.

Only Members Parties to Trades

1.44 Except as otherwise provided in the Rules, Bye-laws and Regulations of the Derivatives Segment, the Derivatives Segment shall not recognise as parties to any trade in the market any party other than its own Members, and every Member shall be directly and primarily liable to every other Member with whom he effects a trade for its due fulfillment in accordance with the Rules, Bye-laws and Regulations of the Exchange whether such trade be for the account of the Member effecting it or for the account of his Client.

All Trades Subject to Rules, Bye-laws and Regulations

1.45 All Permitted Derivatives Contracts are deemed to be made subject to the Rules, Bye-laws and Regulations of the Derivatives Segment and of the Clearing House and the powers vested in the Governing Council, the Clearing Council and the Chairman and the Chief Executive Officer of the Derivatives Segment.

Annulment of Trades

1.46 (a) The Governing Council and/or the Chief Executive Officer and/or any committee empowered by the Governing Council in this behalf may, on its own motion or pursuant to an application by any person, annul a trade or several trades falling within any particular class of trades if the Governing Council, the Chief Executive Officer or such committee is satisfied that there exists sufficient cause to do so. Such annulment shall be final and shall come into force forthwith.

(b) The expression "sufficient cause" in clause (a) above shall, without prejudice to the generality of the expression, include fraud, willful misrepresentation or material mistake.

(c) The Derivatives Segment shall make Regulations relating to annulment of trades. Such Regulations shall specify the parameters for defining a class of trades.

Regulations & Business Requirement Specifications

1.47. The Governing Council may from time to time make, specify, approve, amend and repeal Regulations (whether under the nomenclature of Regulations or as Business Requirement Specifications or notices) with reference to any matter relating to the Derivatives Segment which the Governing Council is entitled to decide, determine, specify or approve. Such Regulations or Business Requirement Specifications shall be deemed to form a part of these Bye-laws. Any regulation made under the nomenclature of Regulations but not Business Requirement Specifications, notices or forms) shall be submitted to SEBI 24 hours in advance of such Regulation becoming effective.

CHAPTER II

2. CLEARING HOUSE

Role of the Clearing House

2.1 The Clearing House shall from time to time assist in and facilitate the clearing and settlement of transactions executed on the Derivatives Segment on terms as may be entered into between the Clearing House and the Derivatives Segment and by such process as the Clearing House may specify from time to time. The Clearing House shall act as the common agent of the Members for clearing contracts between Members and for delivering securities (if required) to and receiving securities (if required) from and for receiving or paying any amounts payable to or payable by such Members in connection with any contracts and to do all things necessary or proper for carrying out the foregoing purposes. The Clearing House shall perform full novation, i.e. the Clearing House shall interpose itself between both legs of every trade, becoming the legal counterparty to both legsin all trades in Permitted Derivatives Contracts in accordance with the Rules and Bye-laws of the Derivatives Segment and the applicable Regulations.

Capacity to Monitor the Overall Position of Members

2.2 The Clearing House shall be entitled to exercise all required powers in connection with clearing and settlement of trades on the Derivatives Segment. In particular and without prejudice to the generality of the foregoing, the Clearing House shall be entitled to:-

2.2.1 monitor the overall positions of Members across all segments of the Exchange.

2.2.2 establish facilities for electronic funds transfer

2.2.3 specify the types of margins to be collected, the person by whom margin/s are to be paid in terms of Bye-law 4.7, manner of payment of margin the amount of margin, the method of computation of margin, valuation of collateral, the time of payment of margin and the manner and circumstances in which margin is to be adjusted, appropriated, applied or returned,

2.2.4 monitor and supervise the collection of margin, collect margins and initiate and take action for non-payment of margin.

Clearing Member Default

2.3 In the event of a Clearing Member being suspended or declared a defaulter, the Clearing House shall be entitled to –

(i) close out the Open Positions of the defaulter Clearing Member on its own account; and/or

(ii) in its discretion close-out all or any Open Positions of all or any of the

Trading Members whose trades the defaulter Clearing Member had agreed to clear (whether such Open Positions are on their own account or on account of their Clients) and/or transfer all or any such Open Positions of such Trading Members to other Clearing Members; and/or

(iii) in its discretion close-out all or any Open Positions of the Client of the Trading Member and/or, at the request of a Client of a Trading Member referred to in sub-clause (ii), transfer all or any Open Positions of such Client to another Trading Member; and/or

(iv) in its discretion close-out all or any Open Positions of the Clients of the defaulter Clearing Member and/or at the request of the client of the Clearing Member, transfer all or any Open Positions of the Clients of the defaulter Clearing Member to another Member
in accordance with the terms, conditions and procedure specified by these Rules, Bye-laws or the Regulations and/or by the Derivative Segment and/or the Clearing House.

Segregation of Own Margin from Clients

2.4 The Clearing House shall segregate upfront and initial margins deposited by Clearing Members for trades on their own account, on account of Trading Members and on account of Clients of the Clearing or Trading Members. The Clearing House shall hold the Clients' and Trading Members' margin money in trust for the purpose of meeting the obligations of the Clients and the Trading Members only and shall not allow its diversion for any other purpose.

CLEARING MECHANISM FOR DERIVATIVES SEGMENT

Eligibility of Clearing Member to Act

[1]2.5 The Clearing Member shall be entitled to act as a Clearing Member only if:-

2.5.1 at all times he has a minimum net worth of such amount as may be specified by SEBI and/or the Clearing House from time to time . The net worth shall be computed in the manner, if any, specified by SEBI and/or the Clearing House from time to time.

2.5.2 he has deposited with the Derivatives Segment or the Clearing House as minimum capital contribution of such amount as may be specified by SEBI and/or the Clearing House from time to time. The Minimum Capital Contribution shall be in such form as SEBI and/or the Clearing House may from time to time specify; and

2.5.3 he has fulfilled such other terms and conditions as SEBI and/or the Clearing House may from time to time specify.

2.6 The Clearing House may categorise Clearing Members in such manner as it thinks fit.

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

CATEGORIES OF CLEARING MEMBERS

[1]2.7 The categories of Clearing Members may include:

(i) Trading Member Clearing Members:

Trading Member Clearing Member means a Member who is a Trading Member and also a Clearing Member. A Trading Member Clearing Member may clear and settle transactions either on his own account or on account of his Trading Member or the Trading Member's/Clearing Member's Client or the Client of another Trading Member in the manner specified in these Bye-laws. Unless repugnant to the context or meaning thereof, the term "Trading Member Clearing Member" shall include a Self-Clearing Member provided that a Self Clearing Member 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).

(ii) Custodian Clearing Members:

Custodian Clearing Member means Custodians registered as Clearing Members and who may clear and settle trades for Clients of Trading Members or for its own Client or its own trades in the manner specified in these Bye-laws.

(iii) Professional Clearing Members:

Professional Clearing Member means a Clearing Member who is permitted by the Clearing House to clear and settle trades on account of his Clients or on account of Trading Members and/or Clients of Trading Members or its own trades.

PROVISIONS REGARDING CLEARING & SETTLEMENT OF DERIVATIVES CONTRACTS

Reporting of Derivatives Contracts

2.8 Derivatives Contracts executed by a Trading Member shall be reported to the Clearing House in such manner and form and within such time as may be specified from time to time by the Derivatives Segment or the Clearing House.

Liability of Clearing House

2.9 The Clearing House shall not be deemed to guarantee the title, ownership, genuineness, regularity or validity of any security, transfer deed or any other documents passing through the Clearing House and the only obligation of the Clearing House in this matter shall be to facilitate the delivery and payment in respect of Derivatives, securities, transfer deeds and any other documents between Members.

Liability of the Exchange

2.10 No liability shall attach either to the Exchange, the Derivatives Segment, the Clearing House, the Governing Council, the Clearing Council or any member of such councils by reason of anything done or omitted to be done by the Clearing

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

House in good faith in the course of its operations nor shall any of the aforesaid be liable to answer in any way for the title, ownership, genuineness, regularity or validity of any securities, transfer deeds or any other documents passing through the Clearing House nor shall any liability attach to any of the aforesaid in any way in respect of such securities, transfer deeds and any other documents.

Liability of the Clearing House and its officers

2.11 No liability shall attach either to the Clearing House or any employee or officer of the Clearing House by reason of anything done or omitted to be done in good faith by the Clearing House in the normal course of its operations.

Clearing/Settlement Days and Scheduled Times

2.12 The Clearing House shall be entitled to from time to time fix the various clearing/settlement days including the pay-in and pay-out days and the scheduled time to be observed in connection with the clearing and settlement operations of any or all Derivatives Contracts. The Clearing House may specify different schedules for any or all Clearing Members from time to time.

Open Positions

2.13 All contracts for the purchase or sale of any Derivatives Contract shall remain open and in force, and shall continue to be in force and binding upon the Clearing Members and their Trading Members and Clients, until liquidated by offsetting contracts or settled as permitted by the Derivatives Segment or the Clearing House or such other method as may be specified by the Derivatives Segment or the Clearing House from time to time.

Offset Automatic

[1]2.14 In case of Derivatives Contracts having the same expiration date and pertaining to the Member's proprietary account or the account of the same Client, of the Member, the purchases and sales shall offset each other automatically to the extent possible.

Clearing House

2.15 All sums of money paid into the Clearing House and all credits appearing in the books of the Clearing House on account of any Member or his Client entitled thereto shall be held by the Clearing House on behalf of the Exchange as agent and in trust for such Member or his Client (as the case may be). The making of such payment or credit entry shall be deemed and taken to be a payment or credit to such Member or his Client (as the case may be). No person shall be entitled to levy any attachment or execution thereon. The Member, his Client or any other person shall, subject to any law for the time being in force, not be deemed to have any right, title or interest in or to any such money or credit. However the Exchange shall have a paramount lien over the same for any dues of the Member or the Client to the Exchange, the Clearing House and/or for any contract entered into subject to the Rules, Bye-laws and Regulations of the Derivatives Segment or the Exchange.

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

Authority to Sell and Pledge

2.16 If a Clearing Member fails to pay his obligations on the Pay-in Day, the Clearing House shall have the right to either sell, or borrow money against a pledge of, securities deposited with the Clearing House or by any other means for the payment of all or any part of the dues of that Member.

Clearance by Members Only

2.17 Only Clearing Members shall be entitled to clear and settle contracts through the Clearing House.

Custodian Clearing Members

[1]2.18 The Clearing House shall maintain a list of Clearing Members approved by the Clearing House as Custodian Clearing Members (hereinafter called "**Custodian Clearing Members**").

Procedure to be Specified by the Clearing House

2.19 The procedure to be followed by Members (including Custodian Clearing Members and Self Clearing Members) for transaction of all business necessary to be transacted in all matters connected with the operations of the Clearing House and the fees, fines and penalties to be paid shall be in accordance with the provisions specified in the relative Regulation or such other provisions as the Derivatives Segment or the Clearing House may from time to time specify in addition thereto or in modification or substitution thereof.

Prescribed Banks

2.20 The Clearing House may from time to time prescribe the bank or banks with whom all Members shall maintain an account for the purpose of clearing operations.

Clearing Forms to be Specified

2.21 All forms for the purpose of the Clearing House shall be in the forms specified in the applicable Regulation or in such other form or forms as the Clearing House may from time to time specify.

Penalty

2.22 The Derivatives Segment or the Clearing House may from time to time specify the penalty, from those enumerated in Chapter XIV of the Rules, to be imposed in every case of failure by any Member to comply with the Rules, Bye-laws and Regulations relating to the Clearing House and the clearance and settlement of transactions through the Clearing House and the resolutions, orders, notices, directions and decisions of the Governing Council or the Clearing Council thereunder or for any error or omission or illegible entry in filling up any forms or other documents required by the Clearing House in the course of its operations or for any delay in submitting any such forms or documents to the Clearing House.

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

Charges for Clearing

2.23 The Governing Council or the Clearing Council shall from time to time specify the scale of clearing charges for the clearance and settlement of transactions through the Clearing House.

Clearing House Bills

2.24 The Clearing House may periodically render bills for the charges, fees, fines and other dues payable by Members which may also include the charges for the use of any property as well as the charges, fines and other dues payable on account of the business cleared and settled through the Clearing House and debit the amount payable by Members to their accounts. All such bills shall be paid within the period specified in the bill. A Clearing Member shall be fully responsible for the dues of the Trading Members clearing through him.

Failure to Comply with Clearing House requirements

2.25 If a Clearing Member fails to comply with any requirement relating to clearing or settlement or otherwise specified or monitored by the Clearing House, the Clearing House may close out all or any Open Positions of the Clearing Member, Trading Members clearing through that Clearing Member and clients of such Clearing Member and Trading Members and/or take such other steps and/or adopt such other procedures as may be required including withdrawal of trading and/or clearing facilities.

DAILY MARK TO MARKET SETTLEMENT AND FINAL SETTLEMENT OF FUTURES CONTRACTS

Daily Settlement for Futures Contracts

2.26 Unless the Derivatives Segment otherwise specifies, all Open Positions, whether long or short, of a Clearing Member in a Futures Contracts shall be deemed to have been settled at the daily settlement price, and such Member shall be liable to pay to, or be entitled to collect from, the Clearing House any loss or profit, as the case may be, represented by the difference between the price at which the such Contract was bought or sold or the settlement price of the previous trading day as the case may be, and the settlement price of the contract at the end of the trading day. After making such settlement with the Clearing House, such Member shall be deemed long or short in such Contract, as the case may be, at the daily settlement price. The daily settlement obligation shall be paid only in cash.

Daily Settlement Price

2.27 Daily settlement price shall be the closing price of such Contract for the day or such other price as may be decided by the Clearing House from time to time.

Advance Call for Daily Settlement

2.28 If the market conditions or price fluctuations are such that the Clearing House deems it necessary, it may call upon the Clearing Members which in its opinion are affected, to deposit with the Clearing House by such time as specified by

the Clearing House, the amount of funds that it estimates will be needed to meet such settlements as may be necessary.

Final Settlement Price

2.29 The Final Settlement Price shall be the closing price of the underlying security on the last trading day of such Contract or such other price as may be specified by the Clearing House from time to time.

Final Settlement

2.30 Clearing Members having open positions in such Contracts at the time of expiry of that Contract on the last trading day, shall make payment to or receive payment from the Clearing House in accordance with the daily mark to market settlement procedures based on a settlement price equal to the Final Settlement Price.

Mode Of Payment

2.31 All Clearing Members shall, on the designated pay-in day, have clear balance of funds in their clearing account to the extent of their funds obligation. The Clearing Bank shall, as per the instructions of the Clearing House, debit a Clearing Member's clearing account to the extent of the funds obligation or to the extent funds are available, whichever is lesser.

Provided however the Clearing House may specify different modes of payment of funds for all or any of the Clearing Members.

Receipt of Funds

2.32 The Clearing Bank shall credit the clearing accounts of the Clearing Members who are due to receive funds as per the instructions of the Clearing House. All funds due to a Clearing Member shall normally be credited to his account unless (a) the Clearing Member does not perform his obligations to the Clearing House, or (b) it is otherwise ordered by the Clearing House.

Provided however the Clearing House may specify different mode of funds credit for all or any of the Clearing Members.

DAILY MARK TO MARKET AND FINAL SETTLEMENT OF OPTION CONTRACTS

[1]2.33 The Derivatives Segment and/or the Clearing House shall be entitled to prescribe all matters in relation to the mark to market and final settlement of Option Contracts. The obligations and entitlements of the Clearing Members arising out of such marking to market or settlement shall be as prescribed by the Derivatives Segment or the Clearing House and shall be paid, performed or received by the Clearing Members accordingly.

[2]2.34 When, pursuant to Bye-Law 1.39A, the exercise of an Option Contract has been

[1] Inserted by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.
[2] Inserted by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

allocated against the obligation of an Option Seller/Writer under an Option Contract, the settlement obligation of the Option Seller/Writer under the latter Option Contract shall also be determined on the Exercise Day of the former Option Contract.

CHAPTER III

3. CLEARING BANK

Clearing House to Regulate

3.1 The Clearing House shall be entitled to specify from time to time the processes, procedures, and operations that every Member shall be required to follow for the purpose of transactions through their clearing accounts with the Clearing Bank(s) or otherwise in connection with the Clearing Bank.

Functions of Clearing Bank

3.2 The Clearing House shall appoint one or more branches of one or more banks for the purpose of fund settlement, for the collection of margin money for all transactions to be settled through the Clearing House, for any other fund movement between Clearing Members and the Clearing House and between Clearing Members *inter se* and for such other purposes whatsoever as the Derivatives Segment or the Clearing House may specify from time to time. Such bank(s) or branches are hereinafter referred to as **"Clearing Bank(s)".**

Clearing Members to have Account with the Clearing Bank

3.3 Every Clearing Member of the Clearing House shall have clearing account(s) with designated Clearing Bank branch (es). Clearing Members shall operate the clearing account(s) only for the purpose of settlement of trades entered on the Derivatives Segment, for the payment of margin money and for any other purpose as may be specified by the Clearing House from time to time.

Clearing Bank to act as per the Instructions of the Clearing House

3.4 The Clearing House shall instruct the Clearing Bank as to the debits and credits to be carried out for the fund settlement between Clearing Members. The Clearing Bank shall act as per the instructions received from the Clearing House for the fund movement and for all other matters in respect of which the Clearing House may give instructions to the Clearing Bank. Instructions of the Clearing House as to debits and credits to a Clearing Member's accounts shall be deemed to be confirmed orders by a Clearing Member to debit and/or credit his account as specified in the instruction.

Clearing Bank to Inform Clearing House of Default in Funds Settlement

3.5 If there are any fund defaults arising out of the instructions received from the Clearing House, the Clearing Bank shall inform the Clearing House immediately.

Clearing Members to Authorise Clearing Bank

3.6 Clearing Members shall authorise the Clearing Bank to access their clearing account for debiting and crediting their accounts as per instructions received from the Clearing House.

Clearing Account(s) of Clearing House in the Clearing Bank

3.7 Unless otherwise specified in respect of any trades as may be specified by the

Clearing House, no Clearing Member or any person claiming through him shall have or be deemed to have any right, title or interest on any amount in the Clearing Account or account(s) of the Clearing House with the Clearing Bank as the Clearing House may from time to time specify. However, a defaulter Clearing Member shall be entitled to receive any surplus funds which are in his account after meeting all dues due from him.

Clearing House as Agents and Trustees

3.8 The Clearing House may specify from time to time, the trades in respect of which all sums paid into the Clearing Account or other account(s) of the Clearing House on account of any Clearing Member entitled thereto, shall be held by the Clearing House as agents and in trust for such Clearing Member as the Clearing House may from time to time specify. In such cases, the making of such payment or credit entry shall be deemed and taken to be a payment or credit to such Clearing Member.

Specimen Signatures

3.9 A Clearing Member shall file with the Clearing House specimens of his own signature and of the signatures of his authorised representatives. The specimen signature card shall be signed by the Clearing Member and his authorised representatives in the presence of an officer of the Clearing House.

Trading Member Account(s) with Clearing Bank

3.10 The Derivatives Segment and /or the concerned Clearing Member may require all or any Trading Members to maintain one or more accounts with designated Clearing Bank branch(es) in such manner and on such terms and conditions as the it/they may specify. The Derivatives Segment may make all or any of the Bye-laws of this Chapter applicable to such accounts of Trading Members subject to such modifications as the Derivatives Segment may specify.

CHAPTER IV

4. MARGINS AND EXPOSURE LIMITS

SEBI Guidelines

4.1 The provisions of this chapter shall be subject to such guidelines as may be issued by SEBI from time to time.

Margin Requirements

4.2 Trades on the Derivatives Segment shall be subject to such margin requirements as may be specified by the Derivatives Segment and/or the Clearing House from time to time.

Margin

4.3 The Clearing House shall be entitled to from time to time specify margin requirements of the Trading and/or Clearing Members. The Members shall furnish and maintain such margins in such form and manner and within such time as may be specified by the Clearing House. Every Member shall have a continuing obligation to maintain margins of the amount, at the level and during the period stipulated by the Clearing House from time to time. Out of the margins so required to be deposited and maintained by a Member, margins deposited by Members on their own account and on behalf of their Clients/Trading Members shall be segregated by the Clearing House in such manner as it may deem fit.

Withholding Margin

[1]4.4 The Clearing House shall at its discretion or on the instructions of the Derivatives Segment withhold the release to a Clearing Member of any margin deposited by that Clearing Member with the Clearing House for any period required by the Derivatives Segment or as decided by the Clearing House. Notwithstanding that such margin is withheld, where a Clearing Member has open positions he must continue to pay any usual or further margins or other obligations without taking into account any margin withheld by the Clearing House.

Additional Margin

4.5 If in the opinion of the Clearing House sudden fluctuations are apparent, the Clearing House may call for additional margin. Additional margin shall be payable in the manner and within such time as may be specified by the Clearing House from time to time.

Regulation of Margins

4.6 The Clearing House shall be entitled to determine the types of margins, the mode of payment of margins, the form in which margin is to be deposited, the circumstances and manner in which margin should be withheld and released, the amount of margin, and all other matters relating to margin.

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

Payment Of Margins

4.7 Unless otherwise specified by the Clearing House, margins shall be paid or furnished:-

4.7.1 by a Client of a Trading Member to the Trading Member;

4.7.2 by a Client of a Clearing Member to the Clearing Member;

4.7.3 by a Trading Member to the Clearing Member who has agreed to act as that Trading Member's Clearing Member (whether or not the Trading Member has received such margin from his Client);

4.7.4 by a Clearing Member to the Clearing House (whether or not the Clearing Member has received such margin from his Client or the concerned Trading Member).

Exposure Limit

[1]4.8. The Clearing House may, in respect of Clearing Members, at any time in its absolute discretion:-

4.8.1. Specify maximum long and/or short Open Positions for all or any Clearing Members, including quantity and/or value, for any or all Derivatives Contracts;

4.8.2 Specify exposure limits for any Derivatives Contracts or class or classes of Derivatives Contracts in quantity and/or value and/or as a percentage of the capital of the Clearing Member or a combination of any of the above or such other method as the Clearing House may decide from time to time for all or any of the Clearing Members;

4.8.3 Impose any exposure limits pursuant to the above by giving notice to the Derivatives Segment and the relevant Member(s). Such exposure limits shall not exceed the limits, if any, specified by SEBI. Notice may be given verbally or in writing or electronically as the Clearing House considers appropriate in the circumstances and any imposition, removal or change in exposure limits so notified shall take effect as stipulated in the notice

4.8.4 Allow Clearing Members to increase their exposure limit on deposit of additional capital with the Clearing House. The Clearing House shall be entitled to specify from time to time the method of calculation of capital and mode of payment of additional capital.

Explanation: For the purpose of this Chapter,

(i) The term exposure may extend both to actual exposure to Trades as well as potential exposure by entry of Orders in the Order Book of the Derivatives Segment.

(ii) The Exposure limit may be in the form of a collateral limit or such other basis as

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

the Derivative Segment or the Clearing House may decide.

4.9 The Derivatives Segment and/or the concerned Clearing Member may in respect of Trading Members at any time in its absolute discretion:-

4.9.1 Specify maximum long and/or short Open Positions including quantity and/or value, for any or all Derivatives Contracts;

4.9.2 Specify exposure limits for any Derivatives Contracts or class or classes of Derivatives Contracts in quantity and/or value and/or as a percentage of the capital of the Trading Member or a combination of any of the above or such other method as the Clearing Member/Derivatives Segment may decide from time to time for all or any of the Trading Members;

4.9.3 Impose any exposure limits pursuant to the above by giving notice to the Trading Member. Such exposure limits shall not exceed the limits, if any, specified by SEBI. Notice may be given verbally or in writing or electronically as the Clearing Member/Derivatives Segment considers appropriate in the circumstances, and any imposition, removal or change in exposure limits so notified shall take effect as stipulated in the notice

4.10 Allow Trading Members to increase their exposure limit on deposit of additional capital with the Clearing Members. The concerned Clearing Member and/or Derivatives Segment shall be entitled to specify from time to time the method of calculation of capital and mode of payment of additional capital.

Exceeding Exposure Limits

4.11 If a Clearing Member exceeds any exposure limit, the Clearing House shall be entitled to require the Clearing Member to close out Open Positions or take such other steps or follow such other procedures as may be specified by the Clearing House from time to time, as will result in compliance with the exposure limits.

Trading Member Exceeding Exposure Limits

4.12 If a Trading Member exceeds any exposure limit, the Derivatives Segment or the concerned Clearing Member shall be entitled to require the Trading Member to close out Open Positions or take such other steps or follow such other procedures as may be specified by the Derivatives Segment or the concerned Clearing Member from time to time, as will result in the compliance with the exposure limits.

Power to Withdraw Clearing Rights on Failure to Pay Margins.

4.13 On failure to deposit margins as per the Bye-laws, or as specified by the Clearing House, the Clearing House may withdraw the clearing and settling facility of the Clearing Member and take such other action as it thinks fit.

Power to Withdraw Trading Rights on Failure to Pay Margins.

4.14 On failure to deposit margins as per the Bye-laws, or as specified by the Derivatives Segment or the concerned Clearing Member, the Derivatives Segment or the concerned Clearing Member may withdraw the trading facility of the Trading Member and take such other action as it thinks fit. If a Trading Member fails to pay the margin due for trades done by him or on his behalf, the relevant Clearing Member shall inform the Derivatives Segment and the Clearing House of the same within such time as may be specified by the Derivatives Segment and/or Clearing House. The Clearing Member may also request the Derivatives Segment to suspend or withdraw the trading facility of the Trading Member.

MARGIN FROM CLIENTS/MEMBERS

Margin Collection from Clients/Trading Members

4.15. Unless the Derivatives Segment or the Clearing House otherwise specifies:-

(i) Every Clearing Member shall collect margins from his Clients and the Trading Members whose trades he has agreed to clear (whether or not the Clearing Member is also a Trading Member),

(ii) A Trading Member shall collect from his Clients in full the margins which he has to furnish to the Clearing Member in respect of trades executed by the Trading Member on behalf of such Clients,

(iii) Every Trading/Clearing Member shall immediately inform the Clearing House in such manner as the Clearing House may specify of the margins received by him, the identity of the person(s) on whose account the same has been paid, any default in payment of margin and such other information as the Derivatives Segment or the Clearing House may specify;

(iv) A Clearing Member shall be liable to furnish the required margin notwithstanding the non-payment of margin by a Client or a Trading Member to such Clearing Member;

(v) A Trading Member shall be liable to furnish the required margin notwithstanding the non-payment of margin by a Client to such Trading Member;

(vi) A Trading Member may collect more margin than is required to be paid by him to the Clearing Member and, until paid to the Clearing Member, the same shall be kept in the Trading Member's Client Account; and

(vii) A Clearing Member may collect more margin than is required by the Clearing House and, until paid to the Clearing House, the same shall be kept in the Clearing Member's Client Account.

Daily Settlement

4.16 The provisions of these Bye-laws shall, to the extent applicable, apply *mutatis mutandis* to the amounts arising in respect of daily or other settlements.

Right of Clearing Members to Close out on Default of Dues

4.17. In case of non-payment of margin dues, settlement dues or any outstandings by the Clients or Trading Members at or after the time when the same is due, the Clearing Member shall be at liberty to close out transactions as specified by the Clearing House unless the Client/Trading Member has an equivalent or more free credit with the Clearing Member. The loss incurred in this regard shall be met from the margin money or any other amount or property of the Client/Trading Member with the Clearing Member and the gains, if any, would also accrue to the Client/Trading Member.

Right of Trading Members to Close out on Default of Dues

4.18. In case of non-payment of margin dues, settlement dues or any outstandings by the Clients at or before the time when the same is due, the Trading Member shall be at liberty to close out transactions as specified by , the Derivatives Segment or the concerned Clearing Member unless the Client has an equivalent or more free credit with the Trading Member. The loss incurred in this regard shall be met from the margin money or any other amount or property of the Client with the Trading Member and the gains, if any, would also accrue to the Client.

Margin to be Held by the Clearing House

4.19**.** Unless the Clearing House otherwise specifies, margin shall be held by the Clearing House and when it is in the form of Bank Deposit Receipts and securities such Receipts and securities may be transferred to the names of the Trustees of the Exchange or to the name of a bank approved by the Governing Council or the Clearing Council. All margins shall be held by the Clearing House and/or by the Trustees of the Exchange and/or by the approved bank solely for and on account of the Exchange without any right whatever on the part of the depositing Member or those in his right to call in question the exercise of such discretion.

Letter of Declaration

4.20 A member depositing margin under the provisions of these Bye-laws and any applicable Regulations shall when required to do so sign a Letter of Declaration in the specified form.

Lien on Margin Deposits

4.21 The moneys, Bank Deposits Receipts and other securities and assets deposited by a Member by way of margin shall be subject to a first and paramount lien for any sum due to the Derivatives Segment or to the Clearing House by him or by the partnership of which he may be a partner and for the due fulfillment of his engagements, obligations and liabilities of or the partnership of which he may be a partner arising out of or incidental to any dealings, trades transactions and contracts made subject to the Rules, Bye-laws and Regulations of all segments

of the Exchange or anything done in pursuance thereof.

Suspension on Failure to Deposit Margin

4.22 A Clearing Member failing to deposit margin as required by or pursuant to these Bye-laws or any Regulations may be required by the Clearing House to suspend his own and his Trading Members' business forthwith. The suspension shall continue until the margin required is duly deposited.

CHAPTER V

5. CLOSING OUT

Clearing Members

5.1. When a Clearing Member is suspended or declared a defaulter or upon failure of a Clearing Member to comply with any of the provisions relating to margins, exposure limits, daily mark to market settlement, final settlement, failure to fulfill the terms and conditions subject to which transactions in Derivatives Contracts have been made or for such other reasons as the Clearing House may specify from time to time, the Clearing House shall be entitled to close-out all or any of the open positions of the Clearing Member (whether on its own account or on account of its Clients or on account of Trading Members whose trades the Clearing Member has agreed to clear in such manner as the Clearing House may determine.

Provided that, if the Clearing House in its discretion deems fit, and subject to such terms and conditions as the Clearing House may specify, all, some or any of the Open Positions of any Client(s) or of any Trading Member(s) (whose trades the Clearing Member has agreed to clear as may be decided by the Clearing House, may, instead of being closed out, be transferred to any other Member who agrees to accept such transfer.

Closing-out in Specific Cases

5.2 Without prejudice to the generality of the provisions contained above, closing-out may be effected in cases specified in the relative Regulations or in such other cases as the Derivatives Segment or the Clearing House may from time to time specify in addition thereto or in modification thereof.

Closing-Out How Effected

[1]5.3 Closing-out shall be effected by the Clearing House in such manner and by such method which it may decide from time to time. Without prejudice to the generality of the aforesaid, closing out may be effected by any of the following methods:

a) By buying-in or selling-out against the Clearing Member through an auction,
b) By declaring a closing-out at such prices as it may decide,
c) By buying-in or selling-out against the Clearing Member by placing an order,
d) By a combination of one or more methods and/or,
e) In any other manner as the Clearing House or SEBI may decide from time to time.

Provided, that nothing contained in these Bye-laws shall oblige the Derivatives Segment to deliver securities in the close out of a Security Settled Derivatives Contract.

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

Closing-Out Member's Responsibility

5.4. Save as otherwise provided, the Clearing Member on account of whose default or at whose instance or request or on whose behalf the closing-out is effected by the Clearing House shall be responsible for the same and no liability or responsibility shall attach to the Clearing House or its employees for any trades entered into in pursuance of or for the purpose of such closing-out. Provided always that:

(i) If the Clearing House has effected a closing out at the request of a Clearing Member or on account of a default, act or omission of or on the part of a Clearing Member, which request, default, act or omission has been caused by a default, act or omission of the Clearing Member's Client or Trading Member or Trading Member's Client, then if the Clearing House is unable to recover the amount payable on such closing-out from the Clearing Member then the Clearing House may recover such amount from such Clearing Member's Client or Trading Member or Trading Member's Client and

(ii) If the Clearing House has effected a closing out at the request of a Clearing Member or on account of a default, act or omission of or on the part of a Clearing Member, which request, default, act or omission has been caused by a default, act or omission of or on the part of the Clearing Member's Client, Trading Member or Trading Member's Client, then the Clearing Member shall be entitled to recover the damages suffered by the Clearing Member consequent to such closing-out from such Client, Trading Member or Trading Member's Client, as the case may be.

(iii) The Clearing House shall have a higher right than the Clearing Member.

Postponement by the Clearing House

5.5 The Clearing House may defer closing-out in any particular case if in its opinion a fair market to close-out is not available or in such other circumstances as it may specify from time to time. No such deferment shall relieve the party in default of any resulting damages or free the intermediate parties of their liabilities.

Default if Closing-Out Loss and Damage not Paid

5.6 If any Clearing Member against whom a transaction is closed-out under or pursuant to the provisions of these Bye-laws, fails to make payment of the loss arising out of the closing-out and of the damages, if any, within such time as may be stipulated by the Clearing House from time to time, he may be declared a defaulter.

CHAPTER VI

6. MEMBERSHIP

Net Worth

6.1 Every Trading/Clearing Member shall at all times have such minimum net-worth as may be specified by the Derivatives Segment or the Clearing House or SEBI from time to time. Every Member shall also follow and comply with all other obligations imposed upon him by the Derivatives Segment Rules, Bye-laws and Regulations and by the Derivatives Segment, SEBI or the Clearing House from time to time.

MEMBERS' OFFICE RELATED PROCEDURE

Office Approval

6.2. No office of a Member shall be used for trading, clearing or settling on the Derivatives Segment or for carrying out back-office work or any other work related to the Derivatives Segment without prior approval of the Derivatives Segment.

Persons Accessing System

6.3 Every Member shall ensure that all persons acting on his behalf on the System are sufficiently qualified or experienced and subscribe at all times to high standards of professional expertise and integrity.

Qualified Personnel

6.4 Every Approved Office and Authorised Workstation shall be under the supervision and control of the Member and of his Authorised Persons delegated with such authority and responsibility in this regard in accordance with the Derivatives Segment Rules, Bye-laws and Regulations.

Infrastructure

6.5 Every Member shall at all times maintain such infrastructure, staff, communication facilities and records so as to be able to carry on his business and service his Clients satisfactorily and as per the requirements of or pursuant to the Derivatives Segment's Rules, Bye-laws, and Regulations and any other relevant provisions in force for the time being and/or as may be specified by the Derivatives Segment and/or the Clearing House.

Complaints

6.6 Where the Derivatives Segment feels it necessary in the public interest to do so, it may at its own instance or on receiving a complaint from another Member or a Client, seek explanation from the Member regarding the level of service or professional conduct of the Member or any of his staff with a view to verifying whether such service or conduct has been unsatisfactory or contrary to the provisions of the Derivatives Segment's Rules, Bye-laws, Regulations.

MEMBERS' SUPERVISION

Supervision

6.7 Every Member shall establish, maintain and enforce procedures by means of Regulations to supervise his business and to supervise the activities of his employees that are designed to achieve compliance with the Rules, Bye-laws and Regulations of the Exchange as well as the relevant statutory regulations. Supervisory procedures shall be in compliance with the manual or regulations of supervisory procedures as may be provided by the Derivatives Segment.

Record of Supervisors

6.8 Every Member shall maintain an internal record of the names of all persons who are designated as supervisory personnel and the period during which such designation is or was effective. Every Member shall preserve such record for a period of not less than five years from the date of such designation ceasing to be effective or such other period as the Derivatives Segment may specify.

Maintenance of Records

6.9 Every Member shall maintain such records as may be specified by the Derivatives Segment or the Clearing House and shall make the same available for inspection by any person authorised in this behalf by the Derivatives Segment or the Clearing House. Every Member shall also make available to such person such information relating to such Member's financial condition as may be specified by the Derivatives Segment or the Clearing House.

Fees, etc.

[1]6.10 (a) Every Member shall pay such fees, charges and other sums as the Derivatives Segment and/or the Clearing House may notify from time to time and in such time and manner as may be required by the Derivatives Segment and/or the Clearing House.

(b) The Governing Council and/or the Clearing Council may in its discretion from time to time declare any fees, charges or other sums paid by a Member to the Derivatives Segment and/or the Clearing House as being refundable to the Member on the completion of one year of such Member ceasing to be a Member, subject to all the obligations of the Member on the Derivatives Segment being discharged. The Governing Council and/or the Clearing Council may also declare that such fees, charges or other sums shall be refundable only in such circumstances and on such terms and conditions as may be specified by the Governing Council and/or the Clearing Council and only if the Member ceases to be a Member in such manner as the Governing Council and/or the Clearing Council may specify. The Governing Council and/or the Clearing Council may also from time to time modify or revoke such declaration.

(c) Upon the completion of one year of a Member ceasing to be a Member, the Derivatives Segment shall refund to the Member such fees charges and

[1] Inserted by Special Committee of Governing Council vide Resolution dated 5-12-2001 and approved by SEBI on 27-2-2002.

other sums, if any, as the Member may be entitled pursuant to the declaration made by the Governing Council or the Clearing Council under clause (b) above as is in force at the time of cessation of the membership. Provided that a Member shall not be entitled to be refunded any fees, charges or other sums in the event of default or suspension of his membership or in the event of expulsion of the Member from the Membership of the Derivative Segment.

Provided further that a member shall not be entitled to be refunded any fee, charges or other sums in the event of any money / fees remain due or payable to SEBI under SEBI (Stock Brokers and Sub-broker) Regulation, 1992 or pendency of any proceedings under the said Regulations.

Report of Material Change

6.11 Every Member must inform the Exchange, the Derivatives Segment and the Clearing House/Corporation of any material change in the status and constitution of the Member including any change in shareholding pattern, management, directors and partners, whether by act of parties, operation of law or otherwise.

Annual Internal Review

6.12 Every Member shall conduct a review, at least annually, of the business in which he engages, which shall be reasonably designed to assist in compliance with and detecting and preventing violations of the provisions contained in the Rules, Bye Laws, Regulations of the Derivatives Segment, any circulars, notices, notifications, decisions, etc. of SEBI, the Derivatives Segment and/or the Clearing House.

Qualifications Investigated

6.13 Every Member shall have the responsibility and duty to ascertain and keep record of the good character, qualifications, and experience of any person prior to making any certification in the application for registration of such person with the Derivatives Segment as Approved User or for any other reason.

Authorisation of Personnel

[1]6.14 Every trading Member shall specifically authorise in writing, person or persons who may be authorised to transact on behalf of the Trading Member and to do such acts which the Trading Member may wish to delegate to such person, and make available a copy of such power of attorney to the Exchange before such person transacts any business on the Exchange.

Written Approval

[2]6.15 Every Trading Member shall establish procedures for the review and endorsement by an appropriate senior officer in writing, on an internal record, of all transactions and all correspondence by its employees pertaining to solicitation or execution of any transaction.

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.
[2] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

RELATION OF TRADING MEMBER WITH CLEARING MEMBER

Association

6.16 A Trading Member shall not be entitled to trade on the Derivatives Segment unless there is a valid and subsisting agreement in accordance with the format specified by the Derivatives Segment and the Clearing House between the Trading Member and a Clearing Member who is not under suspension and who is entitled to carry on business as a Clearing Member and who is not a Self Clearing Member or under suspension. Provided that this Bye-law shall not apply to a Trading Member Clearing Member or a Self Clearing Member who clears its own trades.

Disassociation

6.17 When a Trading Member wants to disassociate himself from his Clearing Member, he shall intimate the Derivatives Segment of his desire to be disassociated from such Clearing Member. Simultaneously the Trading Member may also apply for association with a new Clearing Member with whom he desires to be associated in the future. Such application for association shall be accompanied by a letter from the new Clearing Member accepting such association. A Trading Member shall not disassociate from a Clearing Member without the approval of the Clearing Member The Clearing Member shall not unreasonably withhold such consent. The Open Positions of such Trading Member (whether on his own account or on account of his Clients) may, in the discretion of the Clearing Member, be closed out or transferred.

6.18 If a Clearing Member wants to disassociate himself from a Trading Member, he shall intimate the Derivatives Segment of such disassociation. Upon such intimation,

(i) The Trading Member shall not be entitled to trade on the Derivatives Segment until he has associated with another Clearing Member in the manner mentioned in Bye-law 6.14; and

(ii) The Open Positions of such Trading Member (whether on his own account or on account of his Clients) may, in the discretion of the Clearing Member, be closed out or transferred.

6.19 Even after such disassociation the Clearing Member shall continue to be liable to duly clear and settle all Open Positions and trades of the Trading Member, which were entered into by the Trading Member prior to the disassociation.

RELATIONSHIP OF TRADING MEMBER WITH CLIENTS

Client Agreement

6.20 Every Trading Member shall enter into an agreement with each of his Clients before accepting or placing orders on Clients' behalf. Such agreement shall include provisions specified by SEBI and the Derivatives Segment in this behalf. The Derivatives Segment may categorise Clients into such types as may be necessary for the above purpose and specify the clauses to be included in the agreements to be entered into by the Trading Member depending on the

category of such Clients. However, the Trading Member's responsibility shall not in any way be reduced due to non-an execution of agreement with the Client. No Trading Member shall accept or place any order on a Client's behalf unless an agreement as mentioned above has been entered into between the Client and the Trading Member and is subsisting at that time.

Appraisal of Client

6.21 When establishing a relationship with a new Client, the Trading Member shall take reasonable steps to assess the background, genuineness, beneficial identity and financial soundness of such person, and his investment objectives and such other matters as the Derivatives Segment may specify by asking the new Client to fill in a **"Client Registration Form"** as may be specified by the Derivatives Segment. The form shall include such provisions as may be specified by SEBI. The Trading Member shall also obtain from all Clients other than individual Clients an approved copy of the resolution passed its Board of Directors permitting trading in Derivatives.

Risk Disclosure to Client

6.22 Every Trading Member shall make the Client aware of the Segment in which the Trading Member is registered, particulars of the Trading Member's SEBI registration number, the employees primarily responsible for the Client's affairs, the precise nature of the Trading Member's liability for business to be conducted, the risk associated with business in Derivatives Trading including any limitations on that liability and the capacity in which the Trading Member acts and the Clients' liability thereon by issuing to the Client a copy of the **"Risk Disclosure Document"**, on the lines specified by the Derivatives Segment. The document shall include such provisions as may be specified by SEBI. The Trading Member shall obtain and retain in its records a copy of the Risk Disclosure Document duly signed by the Client for such period as the Derivatives Segment may specify.

Free Copy of Relevant Regulations

6.23 Every Trading Member shall provide to the Clients at no extra cost extracts of relevant provisions governing the rights and obligations of Clients, relevant manuals, notifications, circulars, any additions or amendments thereto, etc. of the Derivatives Segment, or of any regulatory authority, to the extent it governs the relationship between Trading Members and Clients.

Suitability

6.24 A Trading Member shall not recommend to a Client sale or purchase of any Derivatives Contracts unless he has reasonable grounds to believe that such recommendation is suitable for the Client on the basis of facts, if any, disclosed by the Client, whether in writing or orally, regarding the objectives of the Client in entering into Derivatives Contracts, holding of underlying securities, and his financial soundness and investments.

Full Disclosure of Trade Related Details

6.25 Every Trading Member shall make full disclosures of relevant material information in his dealings with his Client including the current best price of trade, trade or order quantities on the System and any relevant announcement from the Derivatives Segment relating to margin and trading restrictions as to price and quantity.

Discretionary Account

6.26 Where the Trading Member manages a discretionary account for or on behalf of the Client, he shall abide by the Securities and Exchange Board of India (Portfolio Managers) Rules and Regulations, 1993.

Prohibition Against Fraudulent or Misleading Acts

6.27 Trading Member shall not furnish any false or misleading information or advice with a view to inducing the Client to do business in particular Derivatives Contracts.

Explanation of the System to Client

6.28 Every Trading Member shall explain the System and order matching process to the Client before accepting any orders from him.

Supply of Execution Related Information

6.29 Where a Client requires an order to be placed or any order of his to be modified or canceled after the order has been entered into the System but has not been executed, the Trading Member shall, on the Client's request, provide the Client with the relevant order confirmation/modification/cancellation slip or copy of the same, forthwith.

Prompt Execution

6.30 Unless otherwise instructed by the Client, the Trading Member shall feed the Client's order forthwith into the System and shall not accumulate or withhold a Client's orders or unexecuted balances.

Trade Confirmation Slip

6.31 Every Trading Member shall, on request by the Client, provide the Client with a copy of the trade confirmation slip as generated on the System on execution of the trade.

Contract Note

6.32 Every Trading Member shall provide the Client with a contract note and bill for the trade executed, within such period as the Derivatives Segment may specify.

Format

6.33 Every confirmation slip, contract note and bill shall be in the format, if any, specified by the Derivatives Segment.

All Contracts Subject to Rules, Bye-laws and Regulations

6.34 (a) All Derivatives Contracts in which dealings are permitted on the Derivatives

Segment entered into by a Member for or with a Client shall in all cases be deemed made subject to the Rules, Bye-laws and Regulations, of the Derivatives Segment, the Exchange and the Clearing House which shall be a part of the terms and conditions of all such contracts and they shall be subject to the exercise by the Derivatives Segment and the Clearing House of the powers with respect thereto vested in it or them by the Rules, Bye-laws and Regulations.

Performance of Contracts

(b) **Unless the Governing Council otherwise specifies**, the delivery, if any, of all documents and papers and the payment in relation to all contracts referred to in sub-clause (a) shall be within the city of Mumbai and, except when delivery is taken and given and payment made and received from and to the Clearing House through Custodian Clearing Members, the parties to all contracts shall be bound to take and give delivery and make and receive payment at the office of the Member concerned within the city of Mumbai**.**

Contracts Subject to Mumbai Jurisdiction

(c) **Unless the Derivatives Segment otherwise specifies**, in case of all claims (whether admitted or not), differences and disputes arising out of or in relation to all contracts referred to in sub-clause (a) the parties concerned shall be deemed to have agreed and acknowledged that such contracts have been entered into and are to be **performed within the city of Mumbai**, that they are subject to arbitration in accordance with the provisions relating to arbitration between Members and Clients contained in these Rules, Bye-laws and any applicable Regulations and that they are subject to the **exclusive jurisdiction of the Courts in Mumbai.**

Member's Lien

6.35(a)Whenever and so often as a Client is indebted to a Member all securities and other assets from time to time lodged with the Member by such Client or held by the Member for and on behalf of such Client and any cash lying to the credit of such Client with the Member shall be subject to the lien of such Member for any general balance of account or margin or other moneys that may be due at any time by such Client singly or jointly with another or others to such Member in respect of any business done subject to the Rules, Bye-laws and Regulations of the Exchange and shall be deemed a general security for payment to such Member of all such moneys (including interest, commission, brokerage and other expenses) as may be due from such Client.

Right to Sell

(b) A Member entitled to lien or security as provided in sub-clause (a) shall be at liberty to sell, pledge or borrow money against such securities and assets in such manner and on such terms and at such time as he may deem advisable and may pay to himself or to any other person any such money due to him or due by him, to such person on behalf of such Client in respect of business done subject to the Rules, Bye-laws and Regulations of the Exchange.

Client to Indemnify

6.36 Every Member entering into any contract for the purchase or sale of any Derivatives Contract or doing any act in relation thereto on the instructions of any Client and on such Client 's account or request shall be entitled to be indemnified by such Client as an agent acting on behalf of his principal.

Members not bound to Accept Instructions and Orders

6.37 A Member shall not be bound to accept all or any of the instructions or orders of Client for purchase, sale or other dealings in Derivatives Contracts. He may in his absolute discretion decline to accept any such instructions or orders for execution wholly or in part and shall not be bound to assign any reason thereof:

Provided that when a Member is not prepared to carry out such instructions or orders either wholly or in part he shall immediately inform his Client to that effect.

Margin

6.38 A Member shall have the right to demand from his Client the margin he has to provide under or pursuant to these Bye-laws and any applicable Regulations in respect of business done or to be done by him for such Client. Subject to such restrictions and limitations as the Derivatives Segment and/or the Clearing House may specify, a Member shall also have the right to demand from his Client such margin as the Member may deem fit and proper in addition to the margin he has to provide under or pursuant to these Bye-laws and any applicable Regulations in respect of business done or to be done by him for such Client. A Member shall also have the right to demand an initial margin in cash and/or securities and/or any other assets from his Client before executing an order and/or stipulate that the Client shall make a margin deposit or furnish additional margin according to changes in market prices. The Client shall when from time to time called upon to do so forthwith provide a margin deposit and/or furnish additional margin in respect of the business done for him by and/or as agreed upon by him with the Member concerned.

Client in default

6.39(a) Unless the Derivatives Segment otherwise permits, a Member shall not transact business directly or indirectly or execute an order for a Client who to his knowledge is in default to another Member or to the Exchange unless such Client shall have made a satisfactory arrangement with the Member or the Exchange who is his creditor.

Deposit of defaulting Client's Moneys and Securities Pending Arbitration

(b) On the application of a creditor Member who refers or has referred to arbitration his claim against the defaulting Client as provided in these Bye-laws and Regulations, the Clearing House may issue orders against any Member or Members restraining him or them from paying or delivering to the defaulting Client any moneys or securities upto an amount or value not exceeding the creditor Member's claim payable or deliverable by him or them to the

defaulting Client in respect of transactions entered into subject to the Rules, Bye-laws and Regulations of the / Derivatives Segment or any other Segment of the Exchange. On receipt of such order the Member or Members concerned shall forthwith deposit and the defaulting Client shall be deemed to have authorised the Member or Members concerned to so deposit with the Exchange such moneys and securities after satisfying his or their own dues if any arising out of transactions made subject to the Rules, Bye-laws and Regulations of the Derivatives Segment or any other Segment of the Exchange. Such deposit shall release the depositing Member or Members from all further liability and obligation to the defaulting Client in respect of the moneys and securities deposited by him or them. The application of the creditor Member pursuant to which the moneys and securities are deposited with the Exchange shall be deemed to form a part of the aforesaid reference to arbitration of his claim against the defaulting Client. The moneys and securities deposited shall be disposed of in terms of the award in arbitration. .

Delivery & Payment

6.40 Members and Clients shall deliver any securities or other documents whatsoever deliverable and pay any amounts payable to each other in such manner, within such period and at such place as the Derivatives Segment or the Clearing House may from time to time specify.

Damages

6.41 A Client or Member who fails to give delivery or make payment in accordance with these provisions shall forthwith pay any loss or damages which the Member or Client may sustain as a result or on account of such failure.

Member When to Close-out Client's Account

6.42 (a) On the failure of a Client to pay the loss or damages sustained on closing-out effected against him by the Member or to pay differences in due time in conformity with the provisions of these Rules, Bye-laws and any applicable Regulations the Member may close-out his account either forthwith or at any time thereafter in his discretion during the time such Client is in default.

Notice of and Payment on Closing-out

(b) When the defaulting Client's account is closed out as provided in sub-clause (a) the Member shall immediately send notice of such closing-out to his Client and any balance due on such closing-out shall be immediately payable by the defaulting Client to the Member.

Death of Client

6.43 A Member may close-out all open transactions on account of a Client who has died.

Closing-out in Case of Bankruptcy

6.44 A Member may close-out all open transactions on account of a Client who becomes bankrupt or insolvent or makes or attempts to make a composition with his creditors or with any of them or who shall have given any admission

or intimation or indication of the fact that he will be unable to fulfil his obligations.

Complaint by Client

6.45 When a complaint has been lodged by a Client with the Derivatives Segment or the Clearing House that any member has failed to fulfill his obligations, the Derivatives Segment or the Clearing House may investigate the complaint. If it is satisfied that the complaint is justified, the Derivatives Segment or the Clearing House may suspend the Member for such period or periods or take such other disciplinary action as it deems fit.

RELATIONSHIP OF CLEARING MEMBER WITH CLIENTS

Client Agreement

6.46 Where a Clearing Member (who may or may not be a Trading Member) has Clients in his capacity as a Clearing Member, (viz. where the Clearing Member acts as a Custodian Clearing Member for institutions, mutual funds),:-

(i) the Clearing Member shall not clear or settle any trades on behalf of his Client unless he has entered into an agreement with his Client before clearing or settling trades on his Client's behalf and such agreement is subsisting at that time. Such agreement shall include provisions specified by SEBI and the Derivatives Segment in this behalf relating to the Client Agreement to be entered into between Trading Members and their Clients. The Derivatives Segment may categorise Clients into such types as may be necessary for the above purpose and specify the clauses to be included in the agreements to be entered into by the Clearing Member depending on the category of such Clients. However, the Clearing Member's responsibility shall not in any way be reduced due to non-execution of agreement with the Client.

(ii) the provisions of the Rules, Bye-laws and Regulations of the Exchange and Business Requirement Specifications, orders, notices, circulars, etc. relating to the relationship between Trading Members `and their Clients shall, so far as may be applicable, apply *mutatis mutandis* also to the relationship between the Clearing Member and his Clients, provided that wherever necessary references therein to trading shall be deemed to be references to clearing and settlement.

(iii) All provisions in Bye-laws [6.32 to 6.45] relating to member client relationship shall to the extent applicable apply *mutatis mutandis* to the relationship between Clearing Member and a Trading Member whose trades the Clearing Member has undertaken to clear.

CHAPTER VII

7. CODE OF CONDUCT FOR MEMBERS

SEBI Broker Regulations

7.1 Every Member shall at all times follow the Code of Conduct as specified by the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992. A Member shall be responsible for all actions through his Workstation, including trades originating through or with the use of his Workstation.

GENERAL PRINCIPLES

Adherence to Trading Practices

7.2 A Member shall adhere to the Rules, Bye-laws and Regulations of the Derivatives Segment and shall comply with such operational parameters, rulings, notices, guidelines and instructions of the Derivatives Segment as may be applicable from time to time. When entering into transactions a Trading Member shall ensure that he abides by the norms and practices as enumerated in these Bye-laws.

Professionalism

7.3 Every Member, in the conduct of his business, shall observe high standards of commercial honour, of just and equitable principles of trade, of integrity and of fair dealing.

Honesty and Fairness

7.4 In conducting his business activities, a Member shall act honestly, fairly and in the best interests of his Clients. When entering into or arranging transactions, Trading Members shall take great care to represent the nature of the transaction to the client.

Capabilities

7.5 Every Member shall have and employ effectively the resources and procedures that are needed for the proper performance of his business activities.

Qualification of Employees

7.6 Every Member shall ensure –

a) that any employee who commits the Member to a transaction or an obligation has the necessary qualification and authority to do so.

b) that employees are adequately qualified and trained in operating in the Derivatives Segment and are aware of their own, and their organisation's responsibilities as well as the relevant statutory provisions governing the Member, the Rules, Bye-laws and Regulations of the Derivatives Segment and Clearing House including any additions or amendments thereto.

Adequate Disclosures

7.7 Every Member shall make adequate disclosures of relevant material information, in dealings with Clients.

Prohibition against Guaranteeing Returns

7.8 No Member or person associated with a Member shall guarantee a Client against a loss or a minimum profit in any transactions effected by the Member for such Client.

Fiduciary Duties and Obligations

7.9 Members shall ensure that all fiduciary duties and all other duties and obligations imposed on them and their staff by various statutory provisions, rules, bye-laws regulations and law are complied with. All Members and their employees shall exercise due skill, care and diligence in all their dealings.

Prohibition against Misuse of Client Funds

7.10 No Member or person associated with a Member shall make improper use of or misappropriate for any period of time any Client's securities or funds.

Prohibition against False Reporting of Trades

7.11 No Member shall publish and circulate or cause to be published or circulated, any notice, circular, advertisement, newspaper article or investment communication of any kind which purports to report any transaction as a purchase or sale of any Derivatives Contract unless such Member can establish, if called for, that such transaction was a *bona fide* purchase or sale of such Derivatives Contract; or which purports to quote the purchase/sale price for any Derivatives Contract unless such Member can establish, if called for, that such quotation represents a *bona fide* price of such Derivatives Contract.

Discretionary Power to be Authorised

7.12 No Member shall exercise any discretionary power in a Client's account unless such Client has given prior written authorisation.

Prohibition against Preference of Client

7.13 A Member shall not act as a principal or enter into any agreement or arrangement with a Client's agents or employees or any other person connected to the Client, employee or agent, whereby special or unusual rates are given with an intent to give special or unusual advantage to such person for the purpose of securing the Client's business.

Prohibition against Disclosure of Identity

7.14 A Member shall not disclose the name and beneficial identity of a Client to any person except to the Exchange, Clearing House, concerned Clearing Member, SEBI, any Board, Council or Committee of the Exchange, the Derivatives Segment or the Clearing House, any enquiry or inspection authority or as may be required by law.

Shielding or Assisting

7.15 No Member shall shield or assist or omit to report any Member he has known to have committed a breach or evasion of any Rule, Bye-law or Regulation of the Derivatives Segment or of any resolution, order, notice or direction there under of the Derivatives Segment, Governing Council, Clearing House, Clearing Council or officer of the Derivatives Segment or Clearing House authorised in that behalf.

Suspended Contracts

7.16 Except with the permission of the Derivatives Segment, business shall not be transacted by a Member in Derivatives Contracts that have been suspended from official quotation.

Manipulative Transactions

7.17 A Trading Member shall not:-

a) make bids and/or offers for Derivatives with an intention of creating a false or misleading appearance with respect to the market for, or the price of, any Derivatives or;

b) make a transaction or give an order for the purchase or sale of Derivatives, the execution of which would involve no change of beneficial ownership, unless the Trading Member had no knowledge that the transaction would not involve a change in the beneficial ownership of Derivatives.

Use of Information Obtained in Fiduciary Capacity

7.18 A Member who in the capacity of paying agent, transfer agent, trustee, or in any other similar capacity, has received information as to the purchase/sale of Derivatives, shall under no circumstance make use of such information for the purpose of soliciting purchases/sales except at the request and on behalf of the Client.

Member Responsible for Approved Workstations

7.19 A Member shall be responsible for all actions, including trades, originating through or with the use of his Workstations or login identity.

Misconduct

7.20 A Member shall be deemed guilty of misconduct if he violates the Code of Conduct for Members or for any of the following or similar acts or omissions namely:-

Fraud

(i) if he is convicted of a criminal offence or commits fraud or a fraudulent act which in the opinion of the Governing Council/Clearing Council renders him unfit to be a member of the Derivatives Segment;

Failure to Comply with Resolutions

(ii) if he contravenes or refuses or fails to comply with or abide by any

resolution, order, notice, direction, decision or ruling of the Governing Council or the Chairman or of any committee or officer of the Derivatives Segment or the Clearing House or Clearing Council or other person authorised in that behalf under these Rules, Bye-laws and Regulations;

Failure to Submit to or Abide by Arbitration

(iii) if he neglects, fails or refuses to submit to arbitration or to abide by or carry out any award, decision or order of the Governing Council/Clearing Council, the Arbitration Committee, the arbitrators made in connection with a reference under these Rules, Bye-laws and Regulations;

Failure to Testify or Give Information

(iv) if he neglects, fails or refuses to submit to SEBI, the Governing Council or to the Chairman or Chief Executive Officer, or to a committee or an officer of the Derivatives Segment or the Clearing House or the Clearing Council, such books, correspondence, documents and papers or any part thereof as may be required to be produced or to appear and testify before or cause any of his partners, directors, officers, attorneys, agents, or employees to appear and testify before SEBI, the Governing Council or the Chairman or such committee or officer of the Derivatives Segment or the Clearing House or the Clearing Council;

Failure to Compare or Submit Accounts with Defaulter

(v) if he neglects or fails to compare his accounts with the Clearing Council or the Clearing House or to submit to it a statement of his accounts with a defaulter or a certificate that he has no such account or if he makes a false or misleading statement therein;

False or Misleading Returns

(vi) if he neglects or fails or refuses to submit or makes any false or misleading statement to the Derivatives Segment or to the Clearing House or any board, council, committee or officer thereof.

Vexatious Complaints

(vii) if he or his agent brings before the Governing Council or the Clearing Council or the Chairman or a committee or an officer of the Exchange or the Derivatives Segment or the Clearing House or the Clearing Council or other person authorised in that behalf a charge, complaint or dispute which in its, his or their opinion is frivolous, vexatious or malicious;

Failure to Pay Dues and Fees

(viii) if he fails to pay his subscription fees, arbitration charges or any other money which may be due by him or any fine or penalty imposed on him.

Unbusinesslike Conduct

7.21 A Member shall be deemed guilty of unbusinesslike conduct for any of the following or similar acts or omissions namely:-

Fictitious Names

(i) if he transacts his own business or the business of his Client in fictitious names;

Fictitious Dealings

(ii) if he makes a fictitious transaction or gives an order for the purchase or sale of Securities/Derivatives the execution of which would involve no change of ownership or executes such an order with knowledge of its character;

Prejudicial Business

(iii) if he makes or assists in making or with such knowledge is a party to or assists in carrying out any plan or scheme for the making of any purchases or sales or offers of purchase or sale of Securities/Derivatives for the purpose of upsetting the equilibrium of the market or bringing about a condition of demoralisation in which prices will not fairly reflect market values;

Rumours

(iv) if he directly or indirectly and in any manner whatsoever circulates or causes to be circulated rumours of a sensational character;

Unwarrantable Business

(v) if he engages in reckless or unwarrantable or unbusiness-like dealings in the market or effects purchases or sales for his Client's account or for any account in which he is directly or indirectly interested which purchases or sales are excessive in view of his Client's or his own means and financial resources or in view of the market for such security;

Compromise

(vi) if he connives at a private failure of any Member or accepts less than a full and *bona fide* money payment in settlement of a debt due by a Member arising out of a transaction in derivatives;

Dishonoured Cheque

(vii) if he issues to any another Member or his Client a cheque which is dishonoured on presentation for want of funds;

Failure to Carry out Transactions with Clients

(viii) if he fails in the opinion of the Governing Council/Clearing Council to carry out his transactions with his Clients.

Unprofessional Conduct

7.22 A Member shall be deemed guilty or unprofessional conduct for any of the following or similar acts or omissions namely:-

Business in Contracts in which Dealings not Permitted

(i) if he enters into contracts or dealings in which dealings are not permitted;

Business for Defaulting Client

(ii) if he deals or transacts business directly or indirectly or executes an order for a Client who has within his knowledge failed to carry out his engagements relating to derivatives/ securities and is in default to another Member unless such Client shall have made a satisfactory arrangement with the Member who is his creditor or unless such dealing, transaction or execution has been permitted by the Derivatives Segment or the Clearing House;

Penalty for False Declaration of Default

(iii) if the Clearing Member falsely declares default of a Trading Member, when in fact the Trading Member has not defaulted.

Business for Insolvent

(iv) if without first obtaining the consent of the Governing Council or the Clearing Council he directly or indirectly is interested in or associated in business with or transacts any business with or for any individual who has been bankrupt or insolvent even though such individual shall have obtained his final discharge from an Insolvency Court;

Business without Permission when under Suspension

(v) if without the permission of the Governing Council and Clearing Council he does business on his own account or on account of a principal with or through a Member during the period he is required by the Derivatives Segment or the Clearing House to suspend business on the Exchange or on any segment of the Exchange;

Business for/with Suspended, Expelled and Defaulter members

(vi) if without the special permission of the Governing Council and Clearing Council he shares brokerage with or carries on business or makes any trade for or with any Member who has been suspended, expelled or declared a defaulter;

Funding Client Account on a Regular Basis

(vii) if he makes margin or other payments due from Clients from his own account on a regular basis.

Habitual Delay in Posting Margins

(viii) if on a regular basis, he delays informing the Derivatives Segment and/or the Clearing House of the margins paid by a Client or which a Client has defaulted in paying.

Business for Employees of Other Members

(ix) if he transacts business directly or indirectly for or with or executes an order for an Approved User, Authorised Person or employee of another Member without the written consent of such employing Member;

Business for Exchange Employees

(x) if he makes a speculative transaction in which an employee of the

Exchange or of the Clearing House is directly or indirectly interested;

Evasion of Margin Requirements

(xi) if he willfully evades or attempts to evade or assists in evading any margin requirements or if he directly or indirectly enters into any arrangement or adopts any procedure for the purpose of evading or assisting in the evasion of the margin requirements specified under or pursuant to these Rules, Bye-laws or any Regulations.

Brokerage Charge

(xii) if he willfully deviates from or evades or attempts to evade the Bye-laws or Regulations relating to charging or sharing of brokerage.

Violation of Agreement

(xiii) if, being a Trading Member, he violates an agreement between himself and a Clearing Member or between himself and his Client or if, being a Clearing Member, he violates an agreement between himself and a Trading Member or between himself and his Client.

Offences by Partners, Agents and Employees of Members

7.23 After giving the concerned Member an opportunity to be heard, the Governing Council or Clearing Council may expel or suspend and/or fine and/or censure and/or warn a Member or a partner of a Member for any act or omission of or his partner, attorney, agent, authorised person or employee which if done or omitted by the Member or partner would subject him to the same penalties. The Governing Council or the Clearing Council may also require the Member to terminate the partner's employment, appointment of service of the partner, attorney, agent, authorised person or employee.

Churning

7.24 No Trading Member shall trade excessively in an account, specially a discretionary account, with the primary intention of generating extra commissions/brokerage.

Front Running

[1]7.25 A Member shall not directly or indirectly, trade in advance of a Client with the knowledge that the Client will place or has placed an order in the market and with the knowledge that such order may affect the market price. Such trades, either on a principal basis or shown as being done for a Client on an agency basis, shall be deemed to be violative of a Member's fiduciary duties.

Explanation: This Bye-law shall be deemed to be violated if the Member discloses a Client's Order to a third party with a view to such third party or any other person trading in advance of the Client.

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

CHAPTER VIII

8. Segregation of Accounts

Client Account Separate

8.1 Every Member shall at all times keep the money of all his Clients in a separate bank account in such manner as may be specified by the Derivatives Segment and/or the Clearing House.

Segregation of Client Accounts from Member Account

8.2 Moneys paid and securities deposited by a Client shall be kept in separate Clients' accounts and, save and except with the express authorisation of the concerned Client but subject to his lien over the account, a Member shall not utilise Clients' moneys or securities for his own account.

Segregation between Different Client Accounts

8.3 A Member cannot utilise the funds and securities of one Client for or on behalf of another Client except on specific authorisation of the Client whose funds or securities are utilised.

Trading Member's Account Separate

8.4 Every Clearing Member shall at all times keep the money of his Trading Members in a separate bank account in such manner as may be specified by the Derivatives Segment and/or the Clearing House.

Segregation of Trading Member's Accounts from Clearing Member's Account

8.5. Moneys paid and securities deposited by Trading Members with a Clearing Member shall be kept in separate Trading Members' accounts and, save and except with the express authorisation of the concerned Trading Member, Clearing Members shall not utilise Trading Members' moneys or securities for their own account.

Segregation between Trading Members' Accounts

8.6. A Clearing Member cannot utilise the funds and securities of one Trading Member for or on behalf of another Trading Member except on specific authorisation of the Trading Member whose funds or securities are utilised.

Power Of Derivatives Segment/Clearing House To Specify

8.7. The Derivatives Segment and/or Clearing House may issue instructions to Members and/or make Regulations in connection with the segregation of accounts by Members from time to time.

CHAPTER IX

9. Brokerage

Orders Exclude Brokerage

9.1 Unless the Derivatives Segment otherwise specifies, all the orders entered on the System shall be at prices exclusive of brokerage.

Cap on Brokerage

9.2 Trading Members shall not charge brokerage at rates exceeding such scale as the Derivatives Segment may specify from time to time.

Specific Disclosure of Brokerage

9.3 A Trading Member may charge brokerage to his Clients which shall be indicated in the contract note separately from the price..

Undisclosed Markup, Fee, Charges or Brokerage Prohibited

9.4 A Member shall not be entitled to directly or indirectly charge any undisclosed markup, fee, charges, commission or brokerage.

Brokerage

9.5 Save as otherwise provided brokerage shall be charged and collected by Trading Members upon the execution of orders for Clients.

Rebate not Allowed

9.6 No allowance, rebate, return or division of brokerage, charges, commission or fee of any nature or character shall be made by a Member to any Client in respect of any trade except as permitted by the Derivatives Segment.

With Whom Brokerage may be Shared

9.7. A Member shall not be entitled to share any brokerage, charges or fee of any nature or character except with such persons, in such circumstances and to such extent as may be permitted by the Derivatives Segment.

Clearing Charges Chargeable By Clearing Members to Trading Members

9.8 Subject to such restrictions and limitations, if any, as the Derivatives Segment or the Clearing House may specify, a Clearing Member shall be entitled to charge a Trading Member, whose trades he undertakes to clear, such clearing charges as may be agreed between the Clearing Member and the Trading Member.

Clearing Charges Chargeable By Clearing Members to their Clients

9.9. Subject to such restrictions and limitations, if any, as the Clearing House may specify, a Custodian Clearing Member shall be entitled to charge his Client, whose trades he undertakes to directly (i.e. without the intervention of a Trading Member) clear, such clearing charges as may be agreed between the Custodian Clearing Member and the Client for so clearing the Client's trades.

CHAPTER X

10. RECORDS, ANNUAL ACCOUNTS & AUDIT OF TRADING MEMBERS

Compliance with Existing Laws

10.1. Every Trading Member shall comply with all relevant statutory provisions, including the Securities Contracts (Regulation) Act, 1956, Securities Contracts (Regulation) Rules, 1957, Securities Exchange Board of India Act, 1992 and Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Rules and Regulations,1992 and the guidelines thereunder, and the requirements of and under any notifications, directives and guidelines issued by the Central Government and any statutory body or local authority or any body or authority acting under the authority or direction of the Central Government relating to maintenance of accounts and records.

Requirements of Derivatives Segment

10.2. In addition to the requirements of the above provisions, every Trading Member shall comply with the following requirements and such other requirements as the Derivatives Segment may from time to time specify in this behalf relating to books of accounts, records and documents in respect of his Trading Membership and trading on the Derivatives Segment:-

(a) Separate books for Derivatives Contracts.

(b) Where a Trading Member holds membership of any other recognised stock exchange(s), or in a different segment of the Exchange, such Trading Member shall maintain a separate set of books of accounts, records and documents for trades executed on each recognised stock exchange and each segment of the Exchange.

Maintenance of Records

10.3 Unless the Derivatives Segment otherwise specifies in addition to or in modification of the following, every Trading Member shall maintain the following records for a period of five years (unless a dispute has arisen, in which case the Trading Member shall maintain for a period of five years after the final settlement or adjudication of the dispute) relating to his business conducted in the Derivatives Segment:-

(a) Trade Confirmation Slips or summary of Trade Confirmation Slips as obtained from the System.

(b) Statements of obligations received from the Clearing House.

(c) Record of all statements received from the settling agencies and record of all correspondence with them.

(d) Order Book of Clients reflecting the following:

i. identity of person receiving the order,
ii. date and time of order received,
iii. name of the person placing the order,
iv. name of Client, description and value of contracts to be bought and sold,
v. (v0 terms and conditions of the order stating particularly price/rate limit or price/rate related instructions and time limit on the order (if any),
vi. the order number as per the System,
vii. any modification or cancellation thereof including cases when it is canceled by the system or canceled due to maturity of the contract,
viii. if executed, the price/rate at which it is executed and to the extent feasible, the time of execution or cancellation and trade number as per the System,
ix. reference number of the contract notes issued in case of executed orders,
x. orders entered pursuant to the exercise of discretionary power shall be so designated,
xi. entries of orders shall be serially numbered,
xii. Relevant Client Registration details; and
xiii. such other information as the Derivatives Segment may specify.

(e) details of upfront deposits collected by Members from each Client describing the form and value, and mentioning appropriate haircuts.

(f) Margin calls made and met

(g) Order book in respect of Trading Member's own orders.

(h) the following reports produced from the Trading System :-

(1) Activity Log
(2) Orders Cancelled Today
(3) New Orders Today
(4) Outstanding Orders Today
(5) Trades done Today

(i) Copies of all instructions obtained in writing from Clients for an order placement, order modification, order cancellation, trade cancellation, etc.

(j) Records in respect of brokerage collected separately from Clients.

(k) A Register of transactions (or other records of original entry) executed by the Trading Member on behalf of Clients containing an itemized daily record of all purchases and sales of securities, showing for each such transaction effected, contract specifications, value of contracts, settlement date of contracts, rates both gross and net of brokerage and names of

Clients.

(l) Register of transactions for trades executed by the Trading Member on his own behalf containing such particulars as may be specified by the Derivatives Segment

Separate Books for Clients' and Own Account

10.4. Unless the Derivatives Segment otherwise specifies in addition to or in modification of the following, every Trading Member shall keep for a period of five years (unless a dispute has arisen, in which case the Trading Member shall maintain for a period of five years after the final settlement or adjudication of the dispute) such records and books of accounts, as may be necessary, to distinguish Client's contracts from his own contracts. These should be maintained on a proprietary and Client basis to determine the amounts of brokerage and margins to be recovered from the Clients. Such records for Client's contracts and for the proprietary contracts shall provide, *inter alia,* for the following:

(a) Contracts that are fully paid for and are held in custody by the Trading Member as security deposit/margin etc. Proper authorisation from the Client for the same shall be obtained by the Trading Member;
(b) Fully paid for Client's securities registered in the name of the Trading Member, if any, towards margin requirements, etc.
(c) Charges collected from the Client
(d) Record of the Long and Short positions of the Trading Member as well as that of each of his Clients.
(e) Margin book for Clients' and for Trading Members' own account trades containing the particulars relating to the amount of margins deposited by each Client and the amount of margin released to each Client
(f) Such other records and books of accounts as the Derivatives Segment may specify.

Maintenance of Records

10.5 Every Trading Member shall keep for a period of five years (unless a dispute has arisen, in which case the Trading Member shall maintain for a period of five years after the final settlement or adjudication of the dispute) such books of accounts, as may be necessary, to show and distinguish in connection with his business as a Trading Member:

(a) The moneys/securities received from or on account of and moneys paid and securities delivered to or on account of each of his Clients and,
(b) The moneys/securities received and the moneys paid and securities delivered on the Trading Member's own account.

Co-mingling of Funds not Permitted

10.6. It shall be compulsory for all Trading Members to keep the money of the Clients in a separate account and their own money in a separate account. No payment for transactions in which the Trading Member is taking a position as a

principal shall be allowed to be made from any Client's account.

Provided the transfer from Client's account to Trading Member's account shall be allowed under the circumstances enumerated below:

(a) Obligation to pay money into Clients' account: Every Trading Member who holds or receives money on account of a Client shall forthwith pay such money to a current or deposit account with a bank to be kept in the name of the Trading Member in the title of which the word "Clients" shall appear (hereinafter referred to as **"Clients Account"**). The Trading Member may keep one consolidated Clients Account for all the Clients or accounts in the name of each Client, as he thinks fit; provided that when a Trading Member receives a cheque or draft representing in part money belonging to the Client and in part money due to the Trading Member, he shall pay the whole of such cheque or draft into the Clients Account and effect subsequent transfer as laid down below in Clause (c).

(b) Money to be paid into Clients Account: No money shall be paid into Clients Account other than -

(i) money held or received on account of Clients;
(ii) such moneys belonging to the Trading Member as may be necessary for the purpose of opening or maintaining the account;
(iii) money for replacement of any sum which may by mistake or accident have been drawn from the account;
(iv) a cheque or draft received by the Trading Member representing in part money belonging to the Client and in part money due to the Trading Member.

(c) Money to be withdrawn from Clients' Account: No money shall be drawn from Clients' Account other than -

(i) money properly required for payment to or on behalf of Clients for or towards payment of a debt due to the Trading Member from Clients or money drawn on Client's authority, or money in respect of which there is a liability of Clients to the Trading Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for each such Client;
(ii) such money belonging to the Trading Member as may have been paid into the Client Account under Clause (a) or (b)(iv) above
(iii) money which may by mistake or accident have been paid into such account.

(d) **Right to lien, set-off etc., not affected:** Nothing in this Chapter shall deprive a Trading Member of any recourse or right, whether by way of lien, set-off, counter-claim charge(s) or otherwise against moneys standing to the credit of the Clients Account.

Maintenance of Records

10.7. Unless the Derivatives Segment otherwise specifies, every Trading Member shall maintain for a period of five years after the closure of the account or termination of the agreement (unless a dispute has arisen, in which case the Trading Member shall maintain for a period of five years after the final settlement or adjudication of the dispute), the following:-

(a) copies of agreements and documents executed with his Clients and with each of the settling agencies or banks.

(b) records of all relevant particulars of persons which are approved as Approved Users by the Derivatives Segment.

(c) originals of all communications received and copies of all communications sent by such Trading Member (including inter-office memo and communications) relating to its business as such.

(d) all Guarantees of Accounts powers of attorney and other evidence of the granting of any discretionary authority given in respect of any account and copies of resolutions empowering an agent to act on behalf of the Trading Member.

(e) all written agreements and documents (or copies thereof) entered into by that Trading Member relating to his business as such, including agreements with respect to any account.

(f) any records which relate to the terms and conditions with respect to the opening and maintenance of any Clients Account, date of entering into agreement with the Client, date of modification thereof, date of termination and representatives of such Client who signed in each case.

Place where Records Maintained

10.8 A Trading Member shall intimate to the Derivatives Segment the place where these records are kept and are available for audit/inspection.

Records of Certain Related Entities to be Included

10.9. The above requirements relating to maintenance of records shall apply not only to records of the Trading Member's principal office but also to those of any branch office and to any firm which conducts the business of the Trading Member.

Records of Complaints

10.10. Each Trading Member shall keep and preserve for a period of five years (unless a dispute has arisen, in which case the Trading Member shall maintain for a period of five years after the final settlement or adjudication of the dispute) a record of all written complaints of his Clients showing the reference number of the Client, date, Client's name, particulars of the complaints and action taken by the Trading Member and, if the matter is referred to arbitration

under or pursuant to these Bye-laws, then the particulars thereof and record of resolution of the complaint by the Trading Member.

Details of Member's Securities

10.11. Every Trading Member shall maintain details of securities which are the property of a Trading Member showing with whom they are deposited and if held otherwise than by the Trading Member, whether they have been lodged as collateral security for loans or advances or otherwise.

Copies of Contract Notes

10.12 Every Trading Member shall keep for a period of five years (unless a dispute has arisen, in which case the Trading Member shall maintain for a period of five years after the final settlement or adjudication of the dispute) copies/duplicates of Contract Notes issued by the Trading Member and details of any statements which are required by these Bye-laws to appear on Contract Notes. Such statements may, unless the Derivatives Segment otherwise specifies, be maintained in a computer or other storage media accessible through a computer

Annual Accounts

10.13 Each Trading Member shall prepare annual accounts for each financial year ending 31st March or such other date as may be advised by the Derivatives Segment.

Fair Portrayal of Assets and Liabilities

10.14 The assets and liabilities of the Trading Member's business shall be brought into account in the balance sheet at such amounts and shall be classified and described therein in such manner that the balance sheet gives a true and fair view of the state of affairs of such business as on the date on which it is made.

Furnishing of Audited Report to Derivatives Segment

10.15 Each Trading Member shall furnish to the Derivatives Segment, its audited financial statement and audit report not later than six months after the end of the Trading Member's financial year or such other period as the Derivatives Segment may specify, provided that when the Derivatives Segment is satisfied that circumstances warrant an extension of time to furnish such report, it may grant an extension of such time as it may deem fit.

Records of the Exchange Will be Final

10.16 In case of any dispute between Members or between a Member and a Client the records of the Exchange shall be final. The records shall be final irrespective of whether the records are in physical form or in any electronic, magnetic or optical medium.

RECORDS, ANNUAL ACCOUNTS & AUDIT OF CLEARING MEMBERS

Compliance with Existing Laws

10.17 Every Clearing Member shall comply with all relevant statutory provisions, including the Securities Contracts (Regulation) Act, 1956, Securities Contracts (Regulation) Rules, 1957, the Securities Exchange Board of India Act, 1992 and Rules, Regulations and guidelines there under, and the requirements of and under any notifications, directives and guidelines issued by the Central Government and any statutory body or local authority or any body or authority acting under the authority or direction of the Central Government relating to maintenance of accounts and records.

Further Requirements

10.18 In additions to the requirements as per the above provisions, every Clearing Member shall comply with the following requirements and such other requirements as the Clearing House may from time to time specify in this behalf relating to books of accounts, records and documents in respect of his Clearing Membership and clearing and settling on the Derivatives Segment:-

(a) Separate books for clearing and settling Derivatives Contracts.

(b) Where a Clearing Member holds membership of any other recognised stock exchange(s), or in a different segment of the Exchange, such Clearing Member shall maintain a separate set of books of accounts, records and documents for trades cleared and settled on each recognised stock exchange and each segment of the Exchange.

Maintenance of Records

10.19. Unless the Clearing House otherwise specifies in addition to or in modification of the following, every Clearing Member shall maintain the following records relating to its business for a period of five years (unless a dispute has arisen, in which case the Clearing Member shall maintain for a period of five years after the final settlement or adjudication of the dispute):

(a) Statements of obligations received from the Clearing House.

(b) Record of all statements received from the clearing and settling agencies and record of all correspondence with them.

(c) Copies of all instructions obtained in writing from Clients and Trading Members.

(d) Records in respect of moneys and/or securities borrowed and loaned including moneys received.

(e) Records in respect of clearing and settling charges collected separately from Clients and Trading Members.

(f) A register of transactions containing the details pertaining, *inter alia* to all sales/purchase transactions to be cleared and settled by the Clearing Member, the parties to such transactions, the date of execution of such transactions, the price at which the contracts were bought/sold, name of Clients and the clearing and settling charges, if any, charged by the Clearing Member.

(g) such records and books of accounts, as may be necessary, to distinguish Client information from own information including details of transactions, margins and clearing and settlement information.

Segregation of Accounts

10.20 Every Clearing Member shall keep for a period of five years (unless a dispute has arisen, in which case the Clearing Member shall maintain for a period of five years after the final settlement or adjudication of the dispute) such books of accounts, as will be necessary, to show and distinguish, in connection with his business as a Clearing Member:

(a) The moneys/securities received from or on account of and the moneys paid and securities delivered to or on account of each of his Clients and Trading Members whose trades the Clearing Member has undertaken to clear and settle,

(b) The moneys/securities received and the moneys paid and securities delivered on the Clearing Member's own account.

(c) It shall be compulsory for all Clearing Members to keep the money of the Clients and Trading Members in a separate account and their own money in a separate account. No payment or delivery for a transaction in which the Clearing Member is taking a position as a principal will be allowed to be made from the Clients' or Trading Members' account.

Transfers to and from Clients' or Trading Members' Accounts

10.21 Unless the Clearing House otherwise specifies, the transfer from Clients' or Trading Members' account to Clearing Member's account shall be allowed only under circumstances provided in the relative Bye-laws and Regulations.

Obligation to Pay Money into Clients or Trading Members' Account

10.22 Every Clearing Member who holds or receives money on account of a Client or Trading Member shall forthwith pay such money to a current or deposit account at a bank, to be kept in the name of the Member in the title of which the word "Clients" or "Trading Members" (as the case may be) shall appear (hereinafter referred to as "Clients' Account" or "Trading Members' Account", as the case may be). A Clearing Member may keep one consolidated Clients' Account/Trading Members' Account for all the Clients and Trading Members or accounts in the name of each Client or Trading Member, as he thinks fit; provided that when a Clearing Member receives a cheque or draft representing in part money belonging to the Client or Trading Member and in part money

due to the Clearing Member, he shall pay the whole of such cheque or draft into the Clients' Account or Trading Members' Account and effect subsequent transfer as laid down in the relative Bye-law herein. The Clearing House may permit Clearing Members to have one consolidated account for Trading Members and Clients of the Clearing Member; and in such case the Bye-laws of this Chapter shall be construed accordingly.

Moneys to be Paid into Clients' or Trading Members' Account

10.23 No money shall be paid into Clients' or Trading Members' Account other than:

(a) money held or received on account of Clients or Trading Members;

(b) such moneys belonging to the Clearing Member as may be necessary for the purpose of opening or maintaining the account;

(c) money for replacement of any sum which may by mistake or accident have been drawn from the account;

(d) a cheque or draft received by the Clearing Member representing in part money belonging to the Client or Trading Members and in part money due to the Clearing Member.

Moneys to be Withdrawn from Clients' or Trading Members' Account

10.24 No money shall be drawn from Clients' or Trading Members' Account other than:

(a) money properly required for payment to or on behalf of Clients or Trading Members for or towards payment of a debt due to the Clearing Member from Clients or Trading Members or money drawn on Client's or Trading Member's authority, or money in respect of which there is a liability of Clients or Trading Members to the Clearing Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for each such Client or Trading Member;

(b) such money belonging to the Clearing Member as may have been paid into the Clients' Account or Trading Members' Account as mentioned in Bye-law 10.23(d) above.

(c) money which may by mistake or accident have been paid into such account.

Right to Lien, Set-Off not Affected

10.25 Nothing in this Chapter shall deprive a Clearing Member of any recourse or right, whether by way of lien, set-off, counter-claim charge(s) or otherwise against moneys standing to the credit of Clients' Account or Trading Members' Account.

Maintenance of Records

10.26 Unless the Clearing House otherwise specifies, every Clearing Member shall maintain for a period of five years after the closure of the account or termination of the agreement (unless a dispute has arisen, in which case the Clearing Member shall maintain for a period of five years after the final settlement or adjudication of the dispute) the following:-

(a) copies of agreements and documents executed with each of his Clients and/or each Trading Member whose trades he has undertaken to clear.
(b) copies of agreements executed with each of the settling agencies or banks.
(c) originals of all communications received and copies of all communications sent by such Clearing Member (including inter-office memo and communications) relating to his business as such.
(d) all Guarantees of Accounts, powers of attorney and other evidence of the granting of any discretionary authority given in respect of any account and copies of resolutions empowering an agent to act on behalf of the Clearing Member.
(e) all written agreements (or copies thereof) entered into by that Clearing Member relating to his business as such, including agreements with respect to any account.
(f) any records which relate to the terms and conditions with respect to the opening and maintenance of any Client's or Trading Member's Account, date of entering into the agreement with the Client or Trading Member, date of modification thereof, date of termination and representatives of such Client or Trading Member who signed in each case.

Place Where Records Maintained

10.27 A Clearing Member shall intimate to the Clearing House the place where these records are kept and available for audit/inspection.

Records of Certain Related Entities to Be Included

10.28 The above requirements relating to maintenance of records shall apply not only to records of the Clearing Member's principal office but also to those of any branch office and to any firm which conducts the business of the Clearing Member.

Record of Complaints

10.29 Each Clearing Member shall keep and preserve a record of all written complaints of his Clients and Trading Members showing the reference number of Client/Trading Member, date, Client's/Trading Member's name, particulars of the complaints and action taken by the Clearing Member and if the matter is referred to arbitration under or pursuant to these Bye-laws then the particulars thereof and the resolution of the complaint by the Clearing Member.

Details of Member's Securities

10.30 Every Clearing Member shall maintain details of securities which are the property of a Clearing Member showing with whom they are deposited and if held otherwise than by the Clearing Member, whether they have been lodged

as collateral security for loans or advances or otherwise.

ANNUAL ACCOUNTS AND AUDIT

Annual Accounts

10.31 Each Clearing Member shall prepare annual accounts for each financial year ending on 31st March or such other date as specified to the Clearing House.

Fair Portrayal of Assets and Liabilities

10.32 The assets and liabilities of the Clearing Member's business shall be brought into account in the balance sheet at such amounts and shall be classified and described therein in such manner that the balance sheet gives a true and fair view of the state of affairs of such business as at the date to which it is made up.

Furnishing of Audited Report to Exchange

10.33 Each Clearing Member shall furnish to the Clearing House, its audited financial statement and audit report not later than six months after the end of the Clearing Member's financial year or such other period as the Clearing House may specify, provided that when the Clearing House is satisfied that circumstances warrant an extension of time to furnish such report, it may grant an extension of such time as it may deem fit.

CHAPTER XI

11. INSPECTION

INSPECTION AUTHORITY

Inspection

11.1 Unless the Derivatives Segment otherwise decides for any Trading Member or class of Trading Members, the Derivatives Segment may inspect the books of accounts and any other document of a Trading Member at least once in every year or such number of times as it deems fit. The Derivatives Segment may appoint one or more persons as inspecting authority to undertake inspection of books of accounts and other records and documents of the Trading Members and Clients for any of the purposes specified in Bye-law 11.3 or for such other purposes as the Derivatives Segment may specify.

Authorised Inspectors

11.2 The inspecting authority appointed by the Derivatives Segment may be either its own officials or employees or any chartered accountant, cost accountant, advocate or other professional or firm thereof or such other person as the Derivatives Segment may think fit to appoint from time to time.

Purposes

11.3 The purposes referred to in Bye-law 11.1. are as follows, namely:

11.3.1 to ensure that the specified records, books of accounts and other books are being maintained in the manner required;

11.3.2 to ensure that the provisions of SEBI Act, rules and regulations thereunder are being complied with;

11.3.3 to ensure that the provisions of the Securities Contracts (Regulation) Act, 1956 and the Securities Contracts (Regulation) Rules, 1957 and any other applicable law are being complied with;

11.3.4 to ensure that the various provisions contained in the Rules, Bye-laws and Regulations of the Exchange and any Business Requirement Specifications, notices, circulars, orders, resolutions, directions or instructions issued thereunder or pursuant thereto are being complied with;

11.3.5 to investigate into the complaints received from Clients, investors, other Members of the Exchange or any other person on any matter having a bearing on the activities of the Member;

11.3.6 to investigate *suo moto*, for any reason where circumstances in the opinion of the Derivatives Segment or SEBI so warrant an inspection into

the affairs of the Member;

11.3.7 to comply with any of the directives issued in this behalf by any regulating authority including the Government of India.

NOTICE

Reasonable Prior Notice

11.4 Before undertaking any inspection under Bye-law 11.1, the Derivatives Segment shall give a reasonable notice to the Trading Member for that purpose.

No Notice in Some Circumstances

11.5 Notwithstanding anything contained in Bye-law [11.4] where the Derivatives Segment is of the opinion that no such notice should be given, it may direct in writing that the inspection of the affairs of the Trading Member be taken up without such or without any notice.

Obligations of Inspector

11.6 The inspecting authority appointed by the Derivatives Segment shall undertake inspection and the Trading Member against whom an inspection is being carried out, shall be bound to discharge his obligations as provided under Bye-laws [11.7 to 11.12].

OBLIGATIONS OF A MEMBER ON INSPECTION

Obligation to Produce Books

11.7 It shall be the duty of every Trading Member who is being inspected and of every partner, director, officer, representative, agent and employee of the Trading Member to produce to the inspecting authority such books, records and other documents in his custody or control or arrange to produce such books, records and other documents which are in any other person's custody or control and furnish such statements and information within such time as the said inspection authority may require. Every Trading Member shall be obliged to ensure compliance of these Bye-laws by his partner, director, officer, representative, agent and employee.

Access

11.8 The Trading Member shall allow the inspecting authority to have reasonable access to the premises occupied by him or by any other person on his behalf and also extend reasonable facilities for examining any books, records, documents and computerised data in his possession or any other person and also provide copies of documents or other materials which in the opinion of the inspecting authority are relevant. Such copies or materials shall be retained by the inspecting authority as the property of the Derivatives Segment.

Statement of Trading Members, Etc.

11.9 The inspecting authority, in the course of inspection shall be entitled to examine or record statements of any director, officer and employee of the Trading

Member or of any associate of such Member.

Obligation to Co-Operate

11.10 It shall be the duty of every director, officer and employee of the Trading Member or where an associate is examined, such associate, to give to the inspecting authority all assistance in connection with the inspection which the Member may be reasonably expected to give.

Right to Examine Record of Trading Member's Bank, Etc.

11.11 The inspecting authority shall be entitled to examine the records relating to the Trading Member's financial affairs held with its bankers or any other agency or person which the inspecting authority may find relevant.

Right to Examine Record of Trading Member's Associates

11.12 The inspecting authority shall have access to the accounts and other records relating to the Trading Member and also such access as authorised by the Derivatives Segment to the accounts and other records relating to any associate of the Trading Member as are within the power of the Member to provide.

SUBMISSION OF REPORT

11.13 The inspecting authority shall submit an inspection report to the Derivatives Segment within such time as the Derivatives Segment may specify in this regard from time to time. The Derivatives Segment shall after consideration of the inspection report, communicate the findings to the Trading Member to give him an opportunity of being heard before any action is taken by the Derivatives Segment on the findings of the inspecting authority.

Action Based on Report

11.14 On receipt of the explanation, if any, from the Trading Member, the Derivatives Segment may call upon the Trading Member to take such measures as the Derivatives Segment may deem fit.

Action on Report without Hearing

11.15 Notwithstanding anything contained in Bye-law 11.13 where the Derivatives Segment is of the opinion that no such hearing should be provided in certain circumstances, it may take action forthwith without giving the Trading Member any opportunity of being heard; and in such case a post-facto hearing shall be given.

Request for Further Information by Derivatives Segment

11.16 The Derivatives Segment may, at its discretion, require from the Clients of the Trading Member or any other persons dealing with the Trading Member, submission of such documents, records, statement of accounts or any other information as it may deem fit.

Inspection of Clearing Members

11.17 The Clearing House shall have inspection powers over Clearing Members and the provisions to this chapter shall apply *mutatis mutandis* to such inspection as

if references in this chapter to Derivatives Segment are references to the Clearing House and references to Trading Member are references to Clearing Member, save and except where the context otherwise requires.

CHAPTER XII

12. ARBITRATION

ARBITRATION BETWEEN MEMBERS AND CLIENTS

Resolution by Arbitration

12.1 In case of any claim, complaint, dispute or difference between a Member and a Client arising out of or in relation to a Derivatives Contract or trading, clearing or settlement in a Derivatives Contract made subject to the Rules, Bye-laws and Regulations of the Derivatives Segment or with reference to anything incidental thereto or in pursuance thereof or relating to the construction, fulfillment or validity thereof, the parties thereto shall resolve such claim, complaint, dispute or difference by arbitration as per the procedure specified in this Chapter. In respect of any claim, complaint, dispute or difference to be resolved by arbitration, no party shall commence any legal proceedings in a court or other tribunal without the permission of the Governing Council.

12.1 A. **Power to provide for seat of Arbitration**

(i) The Governing Council shall from time to time provide for establishment of Regional Arbitration Centres, different seats of arbitration for different regions and/or prescribe geographical jurisdiction for each Centre or seat, as the case may be, for conducting arbitration and prescribe the courts, which shall have jurisdiction for the purpose of this Rules, Bye-laws and Regulations.

(ii) The Governing Council may from time to time, appoint separate Committees for each Regional Arbitration Centre to amicably settle all the claims, complaints, disputes or differences that are referred to it.

Submission of Dispute

12.2 In the case of every claim, complaint, dispute or difference of the kind referred to in Bye-law [12.1], any of the parties concerned may submit to the concerned Regional Arbitration Centre of the Exchange an application for arbitration in such form and with such fee as may be specified by the Derivatives Segment/Currency Derivatives Segment from time to time.

Arbitrator

12.3 (i) If the amount of the claim is less than Rs.10,00,000/- (Rupees Ten Lakhs) or such other amount as the Governing Council may from time to time specify then the reference shall be to a sole arbitrator. The sole arbitrator shall be appointed in the manner mentioned in these Bye-laws.

(ii) If the amount of the claim is not less than Rs.10,00,000/- (Rupees Ten Lakhs) or such other amount as the Governing Council may from time to time specify then the reference shall be to three arbitrators. The three arbitrators shall be appointed in the manner mentioned in these Bye-laws.

Panel of Arbitrators

12.4 The Governing Council shall from time to time nominate to the panel of arbitrators separately for each concerned Regional Arbitration Centre such persons as it thinks suitable from amongst Members, partners of members, directors of the Governing Council, retired judges or other persons having knowledge or experience in the field of law, trade, commerce, industry, arbitration, derivatives, securities market or stock exchange transactions. The Governing Council may also at its discretion and without assigning any reason remove a person from the panel of arbitrators. The persons on the panel of Arbitrators may resign from the panel at any time without assigning any reason. The panel of Arbitrators shall have at least sixty per cent non-Members. Such panel shall be reconstituted every year. An arbitrator who was on the panel of Arbitrators at the time of his appointment in respect of any arbitrations shall be entitled to continue to act as arbitrator in such arbitrations notwithstanding that he may subsequently cease to be on the panel of Arbitrators for any reason.

Reference to Sole Arbitrator

12.5 (i) In a reference to a sole arbitrator, each party to the reference shall submit to the concerned Regional Arbitration Centre of the Exchange in order of choice a list of such number of arbitrators as may be specified by the Derivatives Segment from time to time, from the panel of Arbitrators constituted by the Derivatives Segment for this purpose.

(ii) The concerned Regional Arbitration Centre of the Exchangeshall identify the common arbitrator from the lists submitted by the parties. If the parties select more than one arbitrator, the arbitrator to whom the highest preference is given as per the order of the preference shall be appointed as the arbitrator for the proceeding.

(iii) If the parties fail to select a sole or common arbitrator, the concerned Regional Arbitration Centre of the Exchange shall appoint a sole arbitrator. Such appointment by the Regional Arbitration Centre of the Exchangeshall be final and binding on, and shall be deemed to have been made with the mutual consent of, the parties and cannot be challenged in any court or before any authority. The arbitrator may be from the list of arbitrators submitted by any of the parties or any other arbitrator from the panel of Arbitrators. The Regional Arbitration Centre of the Exchangewhile appointing such arbitrator will ensure that such arbitrator is an independent person. The Regional Arbitration Centre of the Exchanget shall expeditiously intimate such appointment to the parties to the reference.

Reference to Three Arbitrators

12.6 (i) In a reference to three arbitrators, each party to the reference shall appoint one arbitrator from the concerned panel of Arbitrators and the two appointed arbitrators shall appoint the third arbitrator from the concerned panel of Arbitrators. The third arbitrator shall act as the presiding

arbitrator.

(ii) If -

(a) a party fails to appoint an arbitrator within ten days from the receipt of a request to do so from the Exchange; or

(b) the two appointed arbitrators fail to agree on the third arbitrator within ten days from the date of their appointment,

then the appointment shall be made by the concerned Regional Arbitration Centre of the Exchange from the panel of Arbitrators. Such appointment by the concerned Regional Arbitration Centre of the Exchange shall be final and binding on, and shall be deemed to have been made with the mutual consent of, the parties and cannot be challenged in any court or before any authority. The arbitrator may be from the list of arbitrators submitted by any of the parties or any other arbitrator from the panel of Arbitrators. The concerned Regional Arbitration Centre of the Exchange while appointing such arbitrator will ensure that such arbitrator is an independent person. The concerned Regional Arbitration Centre of the Exchange shall expeditiously intimate such appointment to the parties to the reference.

Setting aside of Award and Fresh Reference

12.7 (1) An arbitration award may be set aside by a court on an application made under Section 34 of the Arbitration and Conciliation Act, 1996 on the grounds mentioned in that section.

Deposit

(2) Unless exempted in whole or in part by the Governing Council or the Chief Executive Officer of the Derivatives Segment, a party desiring to apply to the Court to set aside the award shall, before making the application, deposit with the concerned Regional Arbitration Centre of the Exchange in cash the full amount ordered to be paid or the securities or the value at the ruling market price of the securities ordered to be delivered in the award. The party placing the deposit shall be deemed to have agreed that such deposit be handed over by the concerned Regional Arbitration Centre of the Exchange to the party entitled thereto under the award in accordance with the final decision of the Court on the application for setting aside the award. A certificate from the concerned Regional Arbitration Centre of the Exchange showing that the deposit, if any, as required by this Bye-law has been lodged with or received by the concerned Regional Arbitration Centre of the Exchange shall be attached to the application and the court shall not entertain an application to which such certificate and/or the certificate of exemption is not annexed.

Referring Back

(3) Whenever an award is set aside by the court, the matter shall be again referred to arbitration as provided in these Rules, Bye-laws and any

applicable Regulations, and the claims, differences and disputes shall be decided by arbitration only.

Compliance with Award

12.8 Upon an award becoming final, the award shall be complied with by the party concerned immediately on receipt thereof and in any case not later than fifteen days from the date of the award becoming final.

ARBITRATION BETWEEN MEMBERS

Resolution by Arbitration

12.9 In case of any claim, complaint, dispute or difference between Members arising out of or in relation to:-

(i) a Derivatives Contract or trading, clearing or settlement in a Derivatives Contract made subject to the Rules, Bye-laws and Regulations of the Derivatives Segment or

(ii) the business or functioning of the Members on the Derivatives Segment

or with reference to anything incidental thereto or in pursuance thereof or relating to the construction, fulfillment or validity thereof, the parties thereto shall resolve such claim, complaint, dispute or difference by arbitration as per the procedure specified in this Chapter. In respect of any claim, complaint, dispute or difference to be resolved by arbitration, no party shall commence any legal proceedings in a court or other tribunal.

Submission of Dispute

12.10 In the case of every claim, complaint, dispute or difference of the kind referred to in Bye-law [12.9], any of the parties concerned shall submit to the Derivatives Segment an application for arbitration in such form and with such fee as may be specified by the Derivatives Segment from time to time.

Sole Arbitrator

12.11 The reference shall be to a sole arbitrator appointed by the Chief Executive Officer of the Derivatives Segment out of the members of the Derivatives Segment Arbitration Committee. Such appointment shall be final and binding on, and shall be deemed to have been made with the mutual consent of, the parties and cannot be challenged in any court or before any authority. While appointing such arbitrator the Chief Executive Officer will ensure that such arbitrator is an independent person.

Appeal to Arbitration Bench

12.12 If the sum involved in the dispute is more than Rs.2,00,000/- or such other amount as may be specified by the Governing Council from time to time, any party who is not satisfied with an award given by a sole arbitrator in an arbitration between Members may appeal against such award to an Arbitration Bench comprising of three persons appointed by the Chief Executive Officer out of the members of the Derivatives Segment Arbitration

Committee. Such appointment shall be final and binding on, and shall be deemed to have been made with the mutual consent of, the parties and shall not be open to challenge in any court or before any authority. While appointing such arbitrators the Chief Executive Officer will ensure that such arbitrators are independent persons. The appeal shall be in such form as may be specified and shall be filed within such number of days from the date of communication of the award of the sole arbitrator to the party appealing as the Governing Council may specify by a resolution or in the Regulations. The Governing Council or the Chief Executive Officer may extend such period by a further period not exceeding fourteen days on the application of the party desiring to appeal on being satisfied that there is sufficient cause to do so.

Deposit

12.13 The party appealing to the Arbitration Bench shall, unless exempted in whole or in part by the Governing Council or the Chief Executive Officer of the Derivatives Segment, deposit with the Derivatives Segment in cash the full amount ordered to be paid or the securities or the value at the ruling market price of the securities ordered to be delivered in the award. The party placing the deposit shall be deemed to have agreed that such deposit be handed over by the Derivatives Segment to the other party in accordance with the terms of the final decision in the appeal (and in the appeal, if any, therefrom). A certificate from the Derivatives Segment showing that the deposit, if any, as required by this Bye-law has been received by the Derivatives Segment shall be attached to the appeal and the Arbitration Bench shall not entertain an appeal to which such certificate and/or the certificate of exemption is not annexed.

Appeal to Governing Council

12.14 If the sum involved in the dispute is more than Rs.10,00,000/- or such other amount as may be specified by the Governing Council from time to time, any party who is not satisfied with an award given by an Arbitration Bench may appeal against such award to the Governing Council. The appeal shall be in such form as may be specified and shall be filed within such number of days from the date of communication of the award of the Arbitration Bench to the party appealing as the Governing Council may specify by a resolution or in the Regulations. The Governing Council or the Chief Executive Officer may extend such period by a further period not exceeding fourteen days on the application of the party desiring to appeal on being satisfied that there is sufficient cause to do so.

Deposit

12.15 The party appealing to the Governing Council shall, unless exempted in whole or in part by the Governing Council or the Chief Executive Officer of the Derivatives Segment, deposit with the Derivatives Segment in cash the full amount ordered to be paid or the securities or the value at the ruling market price of the securities ordered to be delivered in the award. The party placing the deposit shall be deemed to have agreed that such deposit be handed over by the Derivatives Segment to the other party in accordance with

the terms of the final decision in appeal. A certificate from the Derivatives Segment showing that the deposit, if any, as required by this Bye-law has been received by the Derivatives Segment shall be attached to the appeal and the Governing Council shall not entertain an appeal to which such certificate and/or the certificate of exemption is not annexed.

Rehearing *Ex Parte* Award

12.16 On sufficient cause being shown the Arbitration Bench may set aside an *ex parte* award made by an arbitrator and the Governing Council may similarly set aside any *ex parte* award made by an Arbitration Bench and in any such case the Arbitration Committee or the Governing Council may direct that the reference or the appeal be again enquired into or heard by the arbitrator or Arbitration Bench.

Remission of Award

12.17 The Governing Council in its discretion may within fifteen days of an award remit the award of any matter referred to arbitration to the arbitrators or the Arbitration Bench upon such terms as it thinks fit and thereupon the arbitrators or the Arbitration Bench shall reconsider the matter and either confirm or revise the previous decision.

Interested Governing Council Member Not to Attend

12.18 A member of the Governing Council who is interested in an appeal before the Governing Council shall not attend or participate in the hearing of the appeal.

Change in Composition

12.19 It shall be no objection to an award of the Governing Council that the composition of the Governing Council changed during the inquiry or reference or appeal;

Provided however that no member of the Governing Council who was not present at every meeting at which the appeal was heard, shall participate in giving the final decision

Finality of and Compliance with Award

12.20 Every award of the sole arbitrator, the Arbitration Bench or Governing Council against which an appeal does not lie under these Bye-laws shall be final and binding on the parties to the reference (and persons claiming under them) and, except with the prior approval of the Governing Council, shall not be further appealed against or challenged. Such award shall be complied with by the Member concerned immediately on receipt thereof and in any case not later than fifteen days from the date of being informed of the award by the Derivatives Segment. No Member shall challenge the award of the arbitrator, Arbitration Bench or the Governing Council in any Court or other tribunal (save and except as expressly provided in these Bye-laws).

ARBITRATION PROCEDURE APPLICABLE TO ALL ARBITRATIONS

Arbitration law to govern

12.21 Save and except as modified by the provisions of this Chapter or inconsistent with the provisions of this Chapter, the provisions of the Arbitration and Conciliation Act 1996, or such enactment as succeeds or modifies it, and the rules made thereunder, shall govern any arbitration under this Chapter.

Natural Justice

12.22 The procedure for proceedings of arbitration shall be in accordance with the principles of natural justice and as may be specified by the Derivatives Segment.

Time Period

12.23 The arbitrator, Arbitration Bench and Governing Council shall endeavour to expeditiously complete the arbitration proceedings and make an award and shall endeavour to make the award within four months from the application referring the dispute to arbitration being received by the concerned Regional Arbitration Centre of the Exchange. If the award is not made by an arbitrator or an Arbitration Bench within the specified time then the Chief Executive Officer shall be entitled, if he thinks fit, to appoint an alternate arbitrator or Arbitration Bench who shall hear the reference afresh or may continue the proceedings from the stage where they have reached as the new arbitrator or Arbitration Bench may think fit.

In Writing and Binding

12.24 The decisions of the arbitrator, Arbitration Bench and Governing Council shall be by way of awards in writing which shall state the reasons for arriving at such decisions.

Copy of Award

12.25 After the arbitration award is made, a signed copy shall be delivered to each party.

Interim Award

12.26 The arbitrator, Arbitration Bench or Governing Council may, at any time during the arbitration proceedings, make an interim arbitration award on any matter with respect to which he/it may make a final arbitration award.

Fees

12.27 All fees, costs and charges relating to the appointment of the arbitrator, Arbitration Bench and Governing Council and conduct of arbitration proceedings shall be borne by the parties to the reference equally or in such proportions as may be decided by the arbitrator, Arbitration Bench or Governing Council.

Timely Payment

12.28 All fees and charges shall be payable in advance and when there is failure,

neglect or refusal by a party or parties to pay accordingly, the party making reference shall be responsible for making such payment in advance without prejudice however to his right, if any, to recover the same from such party or parties failing, neglecting or refusing to pay. No arbitration proceedings will be initiated by concerned Regional Arbitration Centre of the Exchange in respect of any reference made to it till the specified fees and charges have been paid except where exempted by the Derivatives Segment.

Interest

12.29 The arbitrators, the Arbitration Bench and the Governing Council shall be entitled to award such interest as he/it think fit and proper for such period as he/it think fit and proper. A sum directed to be paid by an arbitration award shall, unless the award otherwise directs, carry interest at such rate of interest upto the date of the award and from the date of award to the date of payment as may be specified by the Derivatives Segment/Governing Council from time to time.

Indemnity

12.30 No party shall bring any suit or initiate proceedings whatever against the Exchange or the Governing Council, or any employee or employees of the Exchange or any member of the Governing Council or against any arbitrator or the Arbitration Bench for or in respect of any matter or thing purporting to be done under the Rules, Bye-laws and Regulations of the Exchange.

Duties of Parties and Witnesses

12.31 The parties to the reference and any witness on their behalf shall:

(a) produce before the arbitrator, the Arbitration Bench or the Governing Council all books, deeds, papers, accounts, writings and documents in their possession or power which may be required or called for; and

(b) do all other things which, during the pendency of the reference or appeal, the arbitrator or the Arbitration Bench or the Governing Council may require.

Limitation Act to Apply

[1]12.32 Subject to the provision of the Regulation 1.15.4 read with Regulation 1.17, the provisions of the Limitation Act, 1963 shall apply to all arbitrations under this Chapter as they apply to proceedings in the court.

[2]12.32A (1) Claims against defaulter members:

(a) No claim which has arisen or has become due before a member has been declared defaulter as per the Rules, Bye-laws and Regulations of the Derivatives Segment of the Exchange, shall be entertained against him by the arbitrator/s after the expiry of three month from the day

[1] Amended by Governing Board vide Resolution dated 20-9-2001 and approved by SEBI on 23-2-2001.
[2] Amended by Governing Council vide Resolution dated 30-5-2001 and approved by SEBI on…...

the member is declared defaulter.

(b) No claim which has arisen after a member has been declared defaulter as per the Rules, Bye-laws & Regulations of the Derivatives Segment of the Exchange shall be entertained against him by the arbitrator/s after the expiry of three month from the day the claim arises or becomes due.

(c) Whether the claim falls within the period of limitation provided in Clause (a) and (b) shall be decided by the arbitrator(s) and in case he/they find/s that it does not fall within the period specified therein, he/they shall dismiss the application for reference to arbitration. He/they may admit the application after the prescribed period if the applicant satisfies him/them that there is sufficient cause for not making the application within such period as provided in section 5 of Limitation Act, 1963.

(2) Application of the Limitation Act, 1963:

(i) Subject to Clauses 1 (a) to (c) all the provisions of the Limitations Act, 1963 or other law relating to limitation as may be in force in India from time to time shall apply to arbitration under these Bye-laws in respect of a claim falling under clauses (a), (b) or (c) as they apply to the proceedings in the court.

(ii) For the purposes of sub-clause (1) & the Limitation Act, 1963 arbitration is deemed to have commenced on the date on which the Application for arbitration is received by the Exchange.

Governing Council to Prescribe Arbitration Fees, Forms and Procedure

12.33 The fees to be paid, the forms to be used and the procedure to be followed in connection with a reference to arbitration under these Bye-laws and Regulations shall be such as may be prescribed by the Governing Council.

Proceedings

12.34 The arbitrator, Arbitration Bench or Governing Board may proceed with the reference or appeal, notwithstanding any failure to file a written statement/reply or other pleading within due time and may also proceed with the reference in the absence of any or all the parties who after due notice fail, neglect or refuse to attend at the appointed time and place.

Set-off and Counter-Claim

12.35 On a reference to arbitration by one party the other party or parties shall be entitled to claim a set-off or make a counter-claim against the first party provided such set-off or counter-claim arises out of or relates to a matter which is required to be referred to arbitration under these Rules, Bye-laws and/or any applicable Regulations and provided further such set-off or counter-claim is presented together with full particulars at or before the first hearing of the

reference but not afterwards unless permitted by the arbitrator(s).

Operation of Contracts

12.36 All dealings, transactions and contracts which are subject to these Rules, Bye-laws and Regulations shall take effect as if wholly made, entered into and to be performed in the city of Mumbai and the parties to such dealings, transactions, contracts and agreements shall be deemed to have submitted to the exclusive jurisdiction of the Courts in Mumbai for the purpose of giving effect to the provisions of these Rules, Bye-laws and Regulations. Provided, however, that upon the amendments to the Rules, Bye-laws and Regulations with regards to Regional Arbitration Centres and other incidental and consequential matters in connection therewith or relating thereto coming into force, the Courts in Mumbai shall have exclusive jurisdiction in respect of all proceedings to which the Exchange is a party, and in respect of all other proceedings, the courts having jurisdiction over the area in which the respective Regional Arbitration Centre is situated, shall have jurisdiction.

Appeal/reference Period Ending on Holiday

12.37 If the period within which any reference or appeal is required to be filed ends on a day on which the offices of the Exchange are not open for filing such reference or appeal, then the appeal may be filed on the next day after such period on which the offices of the Exchange are open for filing such a reference or appeal.

Member

12.38 For the purposes of this Chapter the term "Member" shall include, and shall always be deemed to have included, a former Member who was a Member at the time when the concerned dealing, trade, transaction or contract was entered into.

Ministerial Duties

12.39 The Secretary and the employees of the Exchange acting under his authority at the respective Regional Arbitration Centre shall -

(a) maintain a register of references;

(b) Receive all applications for arbitration, references, appeals and communications addressed by the parties before or during the course of arbitration or appeal or otherwise in relation thereto. If an application is incomplete he may ask the applicant to rectify the omission(s) and resubmit it.

(c) receive payment of all costs, charges, fees and other expenses;

(d) give notices of hearing and all other notices to be given to the parties before or during the course of the arbitration or appeal or otherwise in relation thereto;

(e) communicate to parties all orders and directions of the arbitrator(s), Arbitration Bench or Governing Council;

(f) receive and record all documents and papers relating to the reference and keep in custody all such documents and papers except such as the parties are allowed to retain;

(g) publish the award on behalf of the arbitrator(s), Arbitration Bench or Governing Council;

(h) generally do all such things and take all such steps as may be necessary to assist the arbitrator(s), Arbitration Bench or Governing Council in the execution of their functions.

Records maintenance

12.40 The Secretary or the Exchange shall not be obliged to maintain records of any reference, proceeding or appeal for a period longer than 5 years after the date of conclusion of the same.

Legal representation

12.41 No advocate shall be permitted to appear, plead or act in the arbitration proceedings. The parties may be permitted by the arbitrator(s), the Arbitration Bench or the Governing Council to have assistance of a duly authorised next friend in the conduct of arbitration proceedings.

Provided that, at the request of the Applicant or the Respondent, the arbitrator(s), the Arbitration Bench or the Governing Council may permit both parties to be represented by advocates depending on the complexities of the facts and law involved in the case.

Saving Clause

12.42 The amended Bye-laws providing for Regional Arbitration Centre and other incidental and consequential matters in connection therewith or relating thereto shall apply to all arbitration proceedings which commenced on or after the said amendments come into force. All arbitral proceedings which commenced before the said amendments came into force shall be governed by the Bye-laws prior to such amendments.

Arbitration between the Members of the Exchange and Members of Regional Stock Exchange

[1]12.43 Subject to and as provided by Securities and Exchange Board of India ("SEBI") and/or as agreed between the regional stock exchange and the Exchange, the provisions of "Arbitration between the Members" of the Derivative Segment of the Exchange shall also apply to the arbitration (i) between the members of the regional stock exchange and the Members of the Derivative Segment of the Exchange, and (ii) between the members of the regional stock exchanges.

[1] Inserted by Governing Council Resolution Dt. 03/10/2011 and approved by SEBI on 24th April, 2012

CHAPTER XIII
13. SUSPENSION & DEFAULT

Suspension and Declaration of Default of Clearing Member

[1]13.1 A Clearing Member may be suspended and/or declared a defaulter by the Clearing House, if:

(i) he is unable to fulfill or fails to fulfill his obligations; or
(ii) he admits or discloses his inability to pay, fulfill or discharge his duties, obligations and liabilities; or
(iii) he fails or is unable to pay within the specified time the damages or the money difference due on a closing-out or squaring off effected against him under these Rules, Bye Laws and Regulations ; or
(iv) he fails to pay any sum or to fulfill any obligation due to the Exchange or the Clearing House or the Derivatives' Segment Settlement Guarantee Fund or to submit to the Exchange or the Clearing House on the due date statement of differences, a balance sheet, other clearing forms or other statements as may be specified from time to time; or
(v) he fails to pay or deliver to the Clearing House or the Derivatives Segment all moneys and other assets due to a Member who has been declared a defaulter within such time of the declaration of default of such Member as may be directed; or
(vi) he fails to abide by arbitration proceedings conducted in the manner laid down by these Rules, Bye Laws and Regulations or by any arbitration award made in such proceedings; or
(vii) he is suspended or declared a defaulter on any other exchange.

Explanation: The Clearing House may, upon the occurrence of any event mentioned above, declare the Member as a defaulter or, if it thinks fit, initially suspend the Member for a period of time and thereafter declare him a defaulter.

Explanation: The Clearing House may suspend a Member or his trading or clearing rights if it has reason to apprehend (which reasons shall be recorded in writing by the Clearing House) that the Member is likely to commit any of the above mentioned acts or omissions.

Suspension for Suspension in Other Segment

13.2 If a Member of the Exchange who is a Trading or Clearing Member is suspended or required to suspend business on any segment of the Exchange then immediately upon such declaration, the Clearing Member shall *ipso facto* be suspended on all segments of the Exchange. Notwithstanding the above, the Clearing House or the relevant board, council, committee or other regulatory authority shall be entitled to take or permit such steps as are

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

required in its opinion for transferring, settling, closing out, squaring off and/or otherwise dealing with outstanding positions and liabilities of the Clearing Member and its Clients, Trading Members and Trading Member's Clients.

Default to be on all Segments

13.3 If a Member of the Exchange who is a Clearing Member is declared as a defaulter on any segment of the Exchange then immediately upon such declaration the Clearing Member shall *ipso facto* become a defaulter on all Segments of the market and his registration as Clearing Member shall immediately stand canceled. Notwithstanding the above, the Clearing House or the relevant board, council committee or other regulatory authority shall be entitled to take or permit such steps as are required in its opinion for transferring, settling, closing out, squaring off and/or otherwise dealing with outstanding positions and liabilities of the Clearing Member or its Clients, Trading Members.

Clearing Member to Report Trading Member's Default

13.4 (i) A Clearing Member shall inform the Clearing House and the Derivatives Segment in the manner specified by the Clearing House if a Trading Member defaults in paying any amount or discharging any obligation to the Clearing Member in respect of any Derivatives Contracts, margin or any other matter relating to the Derivatives Segment. Such information shall be given by the Clearing Member immediately upon the Trading Member so defaulting.

(ii) Upon such information being given by the Clearing Member the Derivatives Segment may suspend the Trading Member or, after making such inquiry as it thinks appropriate, declare the Trading Member as a defaulter.

(iii) If a Clearing Member gives incorrect or misleading information to the Clearing House or the Derivatives Segment then the Clearing Member shall be liable to be penalised by the Clearing Council. The penalty shall not restrict or prejudice to restrict the right of the Trading Member to claim damages from the Clearing Member (including damages for loss of business) for such incorrect or misleading information.

Records to be Final

[1]13.5(i) Every Trading Member who pays any amount (or meets an obligation) to his Clearing Member or to the Clearing House (including any amount / asset paid by way of margin) shall inform the Clearing Member or the Clearing House (as the case may be) as to whether such amount (or other asset) is paid by the Trading Member on his own account or is paid on behalf of a Client (and, in such case, the identity of the Client). Such information shall be given

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

by the Trading Member simultaneously with the payment of the amount (or otherwise meeting with the obligation) or, if the amount (or asset) has not been allocated at the time of payment, then immediately upon allocation. The information given by the Trading Member shall be conclusive and binding on the Clearing Member, the Trading Member and all the Clients of the Trading Member. In the event of any Client or other Member claiming or proving that any information given by a Trading Member is incorrect then the Client or other Member shall have a claim against the concerned Trading Member. However, the Exchange, the Clearing Council, and the Clearing Member shall treat the information given by the Trading Member or available with the Clearing House as correct and conclusive.

(ii) Every Clearing Member who pays any amount (or meets any obligation) to the Clearing House (including any amount / asset paid by way of margin) shall inform the Clearing House (as the case may be) as to whether such amount (or other asset) is paid by the Clearing Member on his own account or is paid on behalf of a Trading Member or a Client of the Clearing Member or of a Trading Member (and, in such case, the identity of the Trading Member and Client). Such information shall be given by the Clearing Member simultaneously with the payment of the amount (or asset) or, if the amount (or asset) has not been allocated at the time of payment, then immediately upon allocation. The information given by the Clearing Member shall be conclusive and binding on the Clearing Member, the Trading Member and all the Clients of the Clearing Member and of the Trading Member. In the event of any Client or Member claiming or proving that any information given by a Clearing Member is incorrect then the Client or Member shall have a claim against the concerned Clearing Member. However, the Exchange, the Clearing Council shall treat the information given by the Clearing Member or available with the Clearing House as correct and conclusive.

Provided however that :-

(i) if there is a conflict between the records of the Clearing Member and those of the Trading Member, the records of the Clearing Member shall prevail and be binding on all parties; and

(ii) if there is a conflict between the records of the Clearing Member, the Trading Member and the Clearing House, the records of the Clearing House shall prevail and be binding on all parties.

Provided also that if a portion of the entire amount / obligation declared by the Clearing Member to the Clearing House is not paid / met by him to the Clearing House then the Regulations shall prescribe the manner in which and on account of whom such amount /obligation shall be presumed to have been paid / met and such amount /asset shall be appropriated accordingly.

Revocation of Suspension on Payment of Disputed Amount

[1]13.6 If, during the period of suspension, the Clearing Member pays all amounts payable by him and discharges all obligations due from him to the Exchange (including the Derivatives Segment) and the Clearing House, to other members of the Exchange, to his Clients and to the Derivatives' Segment Settlement Guarantee Fund and to any other fund of the Exchange then the authority who has imposed the suspension may revoke his suspension.

Clearing Council to Frame Procedures for Suspension and Declaration of Default

13.7 The Clearing Council shall be entitled to specify appropriate provisions and procedures (by way of Business Requirement Specifications or otherwise) consistent with these Rules, Bye-laws and Regulations for and in connection with the suspension of a Clearing Member or the declaration of a Clearing Member as a defaulter and the realisation of claims from the defaulter and his Trading Members and Clients and their respective assets.

Suspended Member's/Defaulter's Books and Documents

13.8 When a Clearing Member has been suspended or declared a defaulter, the Clearing Council shall take charge of all his and his Trading Members' books of accounts, documents, papers and vouchers to ascertain the state of his affairs and the suspended Clearing Member/ defaulter and his Trading Members shall hand over such books, documents, papers and vouchers to the Clearing Council.

List of Debtors and Creditors

[2]**13.9** The suspended Clearing Member/defaulter shall file with the Clearing Council within such time of his suspension or the declaration of his default as the Clearing Council may direct, a written statement containing a complete list of his debtors and creditors and the sum / obligations owing by and to each.

Suspended Member/Defaulter to Give Information

13.10 The suspended Clearing Member/defaulter shall submit to the Clearing Council such statement of accounts, information and particulars of his affairs as the Clearing Council from time to time requires and if so desired shall appear before the Clearing Council in connection with his suspension or default.

Inquiry

13.11 The Clearing Council shall conduct a strict inquiry into the accounts and dealings of the suspended Clearing Member/defaulter in the market and shall inform the Governing Council and the Governing Board anything improper, unbusiness like or unbecoming a Clearing Member in connection therewith which may come to its knowledge.

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.
[2] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

Suspended Member's/Defaulter's Assets

13.12 The Clearing Council shall call in and realise the security and margin money and securities deposited by the defaulter and recover all moneys, securities and other assets due, payable or deliverable to the defaulter by any other Member or Client in respect of any transaction or dealing made subject to the Rules, Bye-laws and Regulations of the Derivatives Segment and such assets shall vest in and shall be dealt with by the Clearing Council in accordance with the provisions of the Chapter relating to the Derivatives Segment Settlement Guarantee Fund. A Member violating this provision may be declared a defaulter.

Payment to Clearing Council

13.13 All moneys, securities and other assets due, payable or deliverable to the suspended Clearing Member or defaulter by any other Member or by any Client in respect of any transaction or dealing made subject to the Rules, Bye-laws and Regulations of the Derivatives Segment must be paid or delivered to the Clearing Council within such time of the suspension or declaration of default as the Clearing Council may direct. A Member violating this provision may be declared a defaulter.

Fraudulent Preference

13.14 A Member who shall have received a difference on an account or shall have received any consideration in any transaction prior to the date fixed for settling such account or transaction shall in the event of the Member from whom he received such difference or consideration being suspended or declared a defaulter, refund the same to the Clearing Council for being dealt with by the Clearing Council in accordance with the provisions of the Chapter relating to the Derivatives Segment Settlement Guarantee Fund. Any Member who shall have paid or given such difference or consideration to any other Member prior to such settlement day shall, in the event of the suspension or default of such other Member on or subsequent to such date as the Clearing Council may specify in this behalf, again pay or give the same to the Clearing Council for being dealt with by the Clearing Council in accordance with the provisions of the Chapter relating to the Derivatives Segment Settlement Guarantee Fund.

Distribution

13.15 The Clearing Council shall at the risk and cost of the creditors of the suspended or defaulter Clearing Member pay all assets received in the course of realisation into such bank and/or keep them with the Clearing House in such names as the Clearing Council may from time to time direct and shall distribute the same as soon as possible in accordance with the provisions of the Chapter relating to the Derivatives Segment Settlement Guarantee Fund.

Close out of Clearing Member's Positions

[1]13.16 If a Clearing Member is suspended or declared a defaulter then, unless the Clearing House otherwise decides, all the Open Positions of the Clearing Member and the Trading Members (whether on their own account or on account of their Clients) for whom such Clearing Member was acting as a clearing member and of Clients of the Clearing Member shall be closed-out in accordance with the Rules, Bye-laws and Regulations of the Derivatives Segment relating to closing out or in such other manner as the Clearing House may determine.

Provided, that nothing contained in these Bye-laws shall oblige the Derivatives Segment to deliver securities in the close out of a Security Settled Derivatives Contract and the Derivative Segment or the Clearing House may settle such Security Settled Derivatives Contract by payment of such amount as may be determined by the Derivative Segment or the Clearing House.

Transfer of some positions by Clearing Member

13.17 The Clearing House may, on the application of a Trading Member whose trades the suspended or defaulter Clearing Member has undertaken to clear or of a Client of a suspended or defaulter Clearing Member or on the application of a Client of such Trading Member, and on such terms and conditions as the Clearing House deems fit to impose, permit all or any Open Positions of the Trading Member (whether on his own account or on account of his Client) or Client to be transferred to another Member who agrees to accept such Open Positions.

Segregation of Dues

[2]13.18 The accounts of the Clients of the Clearing Member, the Trading Members for whom the Clearing Member was acting as a Clearing Member and the Clients of such Trading Members shall be segregated from each other and the amounts and assets standing to the debit and credit of a Trading Member or a Client shall not be adjusted against the credit or debit of another Client or Trading Member and one Client's or Trading Member's funds or assets shall not be utilised for payment of another Client's or Trading Member's dues. Obligations payable by a Clearing Member on his own account shall not be paid or met out of money / assets of a Client or a Trading Member. However amounts or assets payable /deliverable to a Clearing Member (on his own account) by the Clearing House or Derivatives Segment may be applied for paying amounts /assets payable / deliverable by the Clearing Member or by any Client of the Clearing Member or any Trading Member (whose trades the Clearing Member had agreed to clear) or any client of such Trading Member to the Derivatives Segment, the Clearing House or any Member or any Client of the Clearing Member or of any Trading Member (whose trades the Clearing Member had agreed to clear).

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.
[2] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

13.19 If a member (being an individual) dies or (being a body corporate) is wound up or liquidated, then the provisions of this Chapter shall apply in the same manner as if such Member had been declared a defaulter subject to such modifications as the Derivatives Segment may specify.

CHAPTER XIV

14 SUSPENSION & DEFAULT OF TRADING MEMBER

Suspension and Declaration of Default

[1]14.1 A Trading Member may be suspended and/or declared a defaulter by the Derivatives Segment and/or may be suspended by the Clearing Member if:

i) he is unable to fulfill or fails to fulfill his obligations; or
ii) he admits or discloses his inability to pay, fulfill or discharge his duties, obligations and liabilities; or
iii) he fails or is unable to pay /deliver within the specified time the damages or the money difference or assets due on a closing-out or squaring off effected against him under these Rules, Bye Laws and Regulations; or
iv) he fails to pay any sum /fulfill any obligations due to the Exchange or the Clearing House or the Clearing Member or the Derivatives' Segment Settlement Guarantee Fund or to submit to the Exchange or the Clearing House or the Clearing Member on the due date a statement of differences, a balance sheet, other clearing forms or other statements as may be specified from time to time; or
v) he fails to pay or deliver to the Clearing House all moneys and other assets due to a Member who has been declared a defaulter within such time of the declaration of default of such Member as may be directed; or
vi) he fails to abide by arbitration proceedings conducted in the manner laid down by these Rules, Bye Laws and Regulations or by any arbitration award made in such proceedings; or
vii) he fails to pay, fulfill or discharge his duties, obligations and liabilities to his Clearing Member; or
viii) he is suspended or declared a defaulter on any other exchange.

Explanation: The Derivatives Segment or his Clearing Member may suspend a Member or his trading rights if it has reason to apprehend (which reasons shall be recorded in writing by the Clearing House) that the Member is likely to commit any of the above mentioned acts or omissions.

Suspension for Suspension in Other Segment

14.2 If a member of the Exchange who is a Trading Member is suspended or required to suspend business on any segment of the Exchange then immediately upon such declaration, the Trading Member shall *ipso facto* be suspended on all other segments of the Exchange. Notwithstanding the above, the Derivatives Segment or the relevant board, council, committee or other regulatory authority shall be entitled to take or permit such steps as are required in its opinion for transferring, settling, closing out, squaring off and/or otherwise dealing with outstanding positions and liabilities of the Trading Member or his Clients.

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

Default to be on all Segments

14.3 If a member of the Exchange who is a Trading Member is declared a defaulter on any segment of the Exchange then immediately upon such declaration the Trading Member shall *ipso facto* become a defaulter on all segments of the Exchange and his registration as Trading Member shall immediately stand canceled. Notwithstanding the above, the Derivatives Segment or the relevant board, council committee or other regulatory authority shall be entitled to take or permit such steps as are required in its opinion for transferring, settling, closing out, squaring off and/or otherwise dealing with outstanding positions and liabilities of the Trading Member or his Clients.

Clearing Member to Report Trading Member's Default

14.4 (i) A Clearing Member shall inform the Clearing House and the Derivatives Segment in the manner specified by the Clearing House if a Trading Member defaults in paying any amount or discharging any obligation to the Clearing Member in respect of any Derivatives Contract, margin or any other matter relating to the Derivatives Segment. Such information shall be given by the Clearing Member immediately upon the Trading Member so defaulting.

(ii) Upon such information being given by the Clearing Member the Derivatives Segment may suspend the Trading Member or, after making such inquiry as it thinks appropriate, declare the Trading Member as a defaulter.

(iii) If a Clearing Member gives incorrect or misleading information to the Clearing House or the Derivatives Segment then the Clearing Member shall be liable to be penalised by the Clearing Council. The penalty shall not restrict or prejudice to restrict the right of the Trading Member to claim damages from the Clearing Member (including damages for loss of business) for such incorrect or misleading information.

Records to be Final

14.5 The finality of the records shall be as determined under Bye-law 13.5.

Trading Member Default

14.6 In the event of a Trading Member being suspended or declared a defaulter, the Derivatives Segment or the concerned Clearing Member shall be entitled to –

(i) close out the Open Positions of the defaulter Trading Member on its own account; and

(ii) in its discretion close-out all or any Open Positions of the Clients of the defaulter Trading Member and/or transfer all or any Open Positions of the Clients of the defaulter Trading Member to another Trading Member.

in accordance with the terms, conditions and procedure specified by these

Rules, Bye-laws and/or by the Derivative Segment in Regulations, or otherwise.

Trading Members' Transfer of Open Positions and Closing-out, When Effected

14.7 When a Trading Member is suspended or declared a defaulter or when the Clearing Member who has agreed to clear a Trading Member's trades is suspended or declared a defaulter or upon failure of a Trading Member to comply with any of the provisions relating to margins, exposure limits, daily settlement, final settlement, failure to fulfill the terms and conditions subject to which transactions in Derivatives Contracts have been made or for such other reasons as the Derivatives Segment may specify from time to time, the Derivatives Segment or the concerned Clearing Member, if solvent, shall be entitled to close-out all or any of the open positions of the Trading Member (whether on his own account or on account of his Clients) in such other manner as the Derivatives Segment may determine.

Provided that, if the Derivatives Segment in its discretion deems fit, and subject to such terms and conditions as it may specify, all, some or any of the Open Positions of any Client(s) of the Trading Member as may be decided by the Derivatives Segment may, instead of being closed out, be transferred to any other Trading Member who agrees to accept such transfer.

Closing-out in Specific Cases

14.8 Without prejudice to the generality of the provisions contained above, closing-out may be effected in cases specified in the relative Regulations or in such other cases as the Derivatives Segment may from time to time specify in addition thereto or in modification thereof.

Closing-Out How Effected

14.9 Closing-out of a Trading Member shall be effected by the Derivatives Segment or his Clearing Member in such manner and by such method which the Derivatives Segment may decide from time to time. Without prejudice to the generality of the aforesaid, closing out may be effected by any of the following methods:

a) By buying-in or selling-out against the Trading Member through an auction;

b) By declaring a closing-out at such prices as it may decide;

c) By buying-in or selling-out against the Trading Member by placing an order.

d) By a combination of one or more methods and/or;

e) In any other manner as the Derivatives Segment or SEBI may decide from time to time.

Closing-Out Member's Responsibility

14.10(i) Save as otherwise provided, the Trading Member on account of whose default or at whose instance or request or on whose behalf the closing-out is effected by the Derivatives Segment or the Clearing Member shall be responsible for the same and no liability or responsibility shall attach to the Derivatives Segment or the Clearing Member or their employees for any transaction entered into in pursuance of or for the purpose of such closing-out. Provided always that:

(ii) If the Derivatives Segment of the Clearing Member has effected a closing out at the request of a Trading Member or on account of a default, act or omission of or on the part of a Trading Member, which request, default, act or omission has been caused by a default, act or omission of his Client, then if the Derivatives Segment or the Clearing Member is unable to recover the amount payable on such closing-out from the Trading Member then the Derivatives Segment or the Clearing Member may recover such amount from such Client and

(iii) If the Derivatives Segment or the Clearing Member has effected a closing out at the request of a Trading Member or on account of a default, act or omission of or on the part of a Trading Member, which request, default, act or omission has been caused by a default, act or omission of or on the part of a Client, then the Trading Member shall be entitled to recover the damages suffered by the Trading Member, consequent to such closing-out, from such Client..

(iv) The Derivatives Segment shall have a higher right than the Clearing Member and the Trading Member to recover from the Clients. The Clearing member shall have a higher right than the Trading member to recover from the Clients.

Postponement by the Derivatives Segment/Clearing Member

14.11 The Derivatives Segment or the Clearing Member may defer closing-out in any particular case if in its opinion a fair market to close-out is not available or in such other circumstances as it may specify from time to time but no such deferment shall relieve the party in default of any resulting damages or free the intermediate parties of their liabilities.

Default if Closing-Out Loss and Damage not Paid

14.12 If any Trading or Clearing Member against whom a deal is closed-out under or pursuant to the provisions of these Bye-laws, fails to make payment of the loss arising out of the closing-out and of the damages, if any, within such time as may be stipulated by the Clearing House from time to time, he may be declared a defaulter.

Revocation of Suspension on Payment of Disputed Amount

14.13 If, during the period of suspension, the Trading Member pays all amounts payable by him to the Exchange (including the Derivatives Segment), to his

Clearing Member to other Members or other members of the Exchange, to his Clients and to the Derivatives' Segment Settlement Guarantee Fund and to any other fund of the Exchange then the authority which has imposed the suspension may revoke his suspension.

Governing Council to Frame Procedures for Suspension and Declaration of Default

14.14 The Governing Council shall be entitled to specify appropriate provisions and procedures (by way of Regulations or otherwise) consistent with these Rules, Bye-laws and Regulations for and in connection with the suspension of a Trading Member or the declaration of a Trading Member as a defaulter and the realisation of claims from the defaulter and his Clients and their respective assets.

Suspended Member's/Defaulter's Books and Documents

14.15 When a Trading Member has been suspended or declared a defaulter, the Derivatives Segment may take charge of all his books of accounts, documents, papers and vouchers to ascertain the state of his affairs and the suspended member/defaulter shall hand over such books, documents, papers and vouchers to the Derivatives Segment.

List of Debtors and Creditors

[1]**14.16** The suspended member/defaulter shall file with the Derivatives Segment within such time of his suspension or the declaration of his default as the Derivatives Segment may direct, a written statement containing a complete list of his debtors and creditors and the sum / assets owed by and to each.

Suspended Member/Defaulter to Give Information

14.17 The suspended member / defaulter shall submit to the Derivatives Segment such statement of accounts, information and particulars of his affairs as it from time to time requires and if so desired shall appear before the Derivatives Segment in connection with his suspension or default.

Inquiry

14.18 The Derivatives Segment shall conduct a strict inquiry into the accounts and dealings of the suspended Member/defaulter in the market and shall share with the Governing Board and the Clearing Council anything improper, unbusinesslike or unbecoming a Member in connection therewith which may come to its knowledge.

Suspended Member's/Defaulter's Assets

14.19 The Derivatives Segment shall call in and realise the security and margin money and securities deposited by the defaulter and recover all moneys, securities and other assets due, payable or deliverable to the defaulter by any other Member or Client in respect of any transaction or dealing made subject to the Rules, Bye-laws and Regulations of the Derivatives Segment and such assets shall vest in and shall be dealt with by the Derivatives Segment in

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

accordance with the provisions of the Chapter relating to the Derivatives Segment Settlement Guarantee Fund. A Member violating this provision may be declared a defaulter.

Payment to Derivatives Segment

14.20 All moneys, securities and other assets due, payable or deliverable to the suspended member or defaulter by any other Member or by any Client in respect of any transaction or dealing made subject to the Rules, Bye-laws and Regulations of the Derivatives Segment must be paid or delivered to the Derivatives Segment within such time of the suspension or declaration of default as the Governing Council may direct. A Member violating this provision may be declared a defaulter.

Fraudulent Preference

14.21 A Member who shall have received a difference on an account or shall have received any consideration in any transaction prior to the date fixed for settling such account or transaction shall in the event of the Member from whom he received such difference or consideration being suspended or declared a defaulter, refund the same to the Derivatives Segment for being dealt with by the Derivatives Segment in accordance with the provisions of the Chapter relating to the Derivatives Segment Settlement Guarantee Fund. Any Member who shall have paid or given such difference or consideration to any other Member prior to such settlement day shall, in the event of the suspension or default of such other Member on or subsequent to such date as the Derivatives Segment may specify in this behalf, again pay or give the same to the Derivatives Segment for being dealt with by the Derivatives Segment in accordance with the provisions of the Chapter relating to the Derivatives Segment Settlement Guarantee Fund.

Distribution

14.22 The Derivatives Segment shall at the risk and cost of the creditors of the suspended or defaulter Member pay all assets received in the course of realisation into such bank and/or keep them with the Derivatives Segment in such names as it may from time to time direct and shall distribute the same as soon as possible in accordance with the provisions of the Chapter relating to the Derivatives Segment Settlement Guarantee Fund.

SUSPENSION OR DECLARATION OF DEFAULT OF TRADING MEMBER (WITH A SOLVENT CLEARING MEMBER)

Close out of Trading Member's positions

[1] 14.23 If a Trading Member is suspended or declared a defaulter then, unless the Derivatives Segment otherwise decides, all the Open Positions of the Trading Member (whether on his own account or on account of his Clients) shall be closed-out in accordance with the Rules, Bye-laws and Regulations of the Derivatives Segment relating to closing out or in such other manner as the Clearing Member/ Derivatives Segment may determine.

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

Transfer of Client positions to another Trading Member

14.24 The Derivatives Segment/Clearing Member may, on the application of a Client of a suspended or defaulter Trading Member, and on such terms and conditions as the Derivatives Segment deems fit to impose, permit all or any Open Positions of the Client through the suspended or defaulter Trading Member to be transferred to another Trading Member who is agreeable to accept such Open Positions.

Segregation of Dues

[1] 14.25 The accounts of the various Clients of a Trading Member shall be segregated from each other and the amounts /assets standing to the debit and credit of a Client of a Trading Member shall not be adjusted against the credit or debit of another Client. One Client's funds shall not be utilised for payment of another Client's dues. Amounts / assets payable /deliverable by a Trading Member on his own account shall not be paid / delivered out of money of a Client. However amounts /assets payable / deliverable to a Trading Member (on his own account) by his Clearing Member or by the Clearing House or by the Derivatives Segment may be applied for paying amounts / assets payable / deliverable by the Trading Member or by any Client of the Trading Member to the Derivatives Segment, the Clearing House or any Member or any Client of the Trading Member.

Clearing Member responsible for Specified dues of Trading Members

[2] 14.26 If a Trading Member is suspended or declared a defaulter then the Clearing Member who has agreed to clear such Trading Member's trades/Derivatives Contracts shall pay such Trading Member's liabilities as mentioned below:-

14.26.1 The Clearing Member shall pay /deliver to the Clearing House such amounts / assets as are payable /deliverable by such suspended or defaulter Trading Member (whether on his own account or on account of any Client of such Trading Member) to complete, in a timely manner, all settlements in which the Trading Member is liable to pay any amounts / deliver any assets;

14.26.2 The Clearing Member shall pay / deliver to the Clearing House such amounts /assets as are payable by such suspended or defaulter Trading Member after transfer or closing out of such of the Outstanding Positions of such Trading Member (whether on his own account or on account of any Client of such Trading Member) as are to be transferred or closed out in accordance with the provisions of these Rules and Bye-laws or any applicable Regulations.

14.26.3 A Clearing Member shall be bound to pay, fulfill or discharge the Trading Member's obligations and liabilities regardless of the solvency of the Trading Member and notwithstanding that the

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.
[2] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

Trading Member may have failed to pay any amount to the Clearing Member.

14.26.4 Any amount paid / obligations fulfilled by the Clearing Member on account of the liabilities of a defaulter or suspended Trading Member shall be a debt due from that Trading Member to the Clearing Member, and the Clearing Member shall be entitled to adopt appropriate proceedings against such Trading Member to recover such amount /dues.

14.26.5 Such other amounts /assets as may be specified by Regulations from time to time subject to the terms and conditions specified by the Regulations.

CHAPTER XV

15. DERIVATIVES SEGMENT SETTLEMENT GUARANTEE FUND

Definitions

[1]15.1 In these Bye-laws unless there is anything repugnant in the subject or context:

15.1.1 "Fund" shall mean the Derivatives Segment Settlement Guarantee Fund or the Currency Derivatives Segment Settlement Guarantee Fund.

15.1.2 "Settlement" or "settlement" means a settlement specified by the Derivatives Segment for settlement of Derivatives Contracts and includes a daily settlement and a settlement in which daily mark to market settlement dues or margin are to be paid.

15.1.3 "Settlement in which a Trading/Clearing Member has been suspended or declared a defaulter or in which a defaulter has been declared a defaulter" shall have the following meaning:

Where a Trading Member has been suspended or declared a defaulter for non-payment of any amount payable by him or the non-performance of any obligations to his Clearing Member in respect of any Settlement, or a Clearing Member has been suspended or declared a defaulter for non-payment of any amount payable by him or the non-performance of any obligations to the Clearing House in respect of any Settlement then the Settlement in respect of the non-payment / non-performance of which the Trading/Clearing Member is suspended or declared a defaulter shall be the "Settlement in which the Trading/Clearing Member has been suspended or declared a defaulter or in which a defaulter has been declared a defaulter"; and where the Trading/Clearing Member has failed to pay any amount payable by him /fulfill any obligation to his Clearing Member or Clearing House in respect of more than one Settlement then the "Settlement in which the Trading/Clearing Member has been suspended or declared a defaulter or in which the defaulter has been declared a defaulter" shall be the Settlement(s) so specified by the authority who or which has suspended him or declared him as a defaulter.

[2]15.2(i) The Exchange shall establish funds, which shall be known as the "Derivatives Segment Settlement Guarantee Fund" and the "Currency Derivatives Segment Settlement Guarantee Fund".

(ii) Subject to the other provisions of these Rules and Bye-laws and Regulations, the object of the Fund shall be to unconditionally guarantee, in accordance with these Rules, Bye-laws and Regulations, the financial settlement of-

(a) Derivatives Contracts which have been entered into between Trading Members of the Exchange *inter se* which form part of the Derivatives Segment's Settlement system and

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.
[2] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

(b) claims of Clients of Trading Members who have been suspended or have been declared as defaulters and whose Clearing Members have also been suspended or declared as defaulters and

(c) claims of Clients of Custodian Clearing Members and Self Clearing Members who have been suspended or have been declared as defaulters.

Provided however that no claims shall be entertained which are collusive or entered into to defraud any person or the Exchange or are otherwise not bona fide.

Provided further that the Derivatives Segment and the Clearing House may, at their option, either,

a) deliver Securities in the Settlement of a claim arising out of a Security Settled Derivatives Contract, or
b) settle such Security Settled Derivatives Contract by payment of such amount as may be determined by the Derivatives Segment or the Clearing House.

Provided further that the Fund's guarantee shall extend only to claims arising in respect of the Settlement(s) in which the Clearing Member is suspended or declared a defaulter (and not in respect of any other settlement(s)).

[1](iiA) Subject to and as provided by SEBI and/or as agreed between the regional stock exchange and the Exchange, the fund shall also guarantee financial settlement of the bona fide trade/ transactions executed on the floor/trading system of the Derivative Segment of the Exchange by the members of the regional stock exchange. The provisions of the "Derivative Segment Settlement Guarantee Fund" as contained in these Bye-laws shall, to the extent applicable, also apply to the transaction executed by the members of the regional stock exchange on this segment.

(iii) The Governing Council shall be entitled to make Regulations relating to norms, procedures and manner in respect of:

(a) the management and administration of the Fund,
(b) the structure and composition of the Fund,
(c) the contributions to be made to the Fund by the Exchange, Trading/Clearing Members of the Exchange and others,
(d) investment of the Fund,
(e) application of the Fund,
(f) persons who would be disentitled from receiving a benefit from the Fund,

[1] Inserted by Governing Council Resolution Dt. 03/10/2011 and approved by SEBI on 24th April, 2012

(g) minimum value of funds in the Fund,
(h) the money and property to be paid to or received by the Derivatives Segment or the Clearing Council or the Fund,
(i) the application of the money and property paid to or received by the Derivatives Segment or the Clearing Council or the Fund including the order of priority in which they shall be applied, and
(j) the closing-out, adjustment, settlement and/or cancellation of contracts entered into by a Member with the defaulter or suspended Member.

Management of the Fund

15.3(i) Subject to these Rules, Bye-laws and Regulations, the Clearing Council shall have complete control over the management and administration of the Fund. In addition to the powers conferred by the other provisions of the Rules, Bye-laws and Regulations of the Exchange, the Clearing Council shall be vested with all powers, authorities and discretions necessary or expedient for, or incidental to the management and administration of the Fund or for achieving the object and purpose of the Fund.

(ii) Without prejudice to the generality of the foregoing, the Clearing Council shall have for the purposes of the fund, the power to-

(a) summon Members, partners of Members and directors of Members who are corporate bodies and their employees to appear before the Clearing Council and question them;
(b) call upon Members, partners of Members, and directors of Members who are corporate bodies to furnish to the Clearing Council such information, documents and papers as the Clearing Council may require and within the period specified by the Clearing Council;
(c) specify forms, agreements, affidavits, undertakings and other writings to be signed by Members, partners of Members, directors of Members who are companies or other corporate bodies or by other persons and specify the period within which the same should be signed and submitted,
(d) invest or otherwise deal with the money of the Fund;
(e) realise or otherwise deal with any security or other property offered to the Fund;
(f) borrow money without security or against the security of the Fund, or any property of, or available to, or accessible by the Fund, or otherwise;
(g) enter into financial arrangements with banks, institutions, companies and other persons for the purposes of the Fund;
(h) issue guarantees and indemnities for the purposes of the Fund;
(i) delegate any of the powers and functions of the Clearing Council to one or more sub-committees comprising of one or more members of the Clearing Council and/or delegate any of the administrative powers and functions of the Clearing Council to one or more employees of the Clearing House or to any other persons subject to such terms and

conditions as the Clearing Council may think fit to impose;

(j) do all such acts as the Clearing Council considers necessary to protect or advance the interests of the Fund or to achieve the purposes and objects of the Fund;

(k) institute and conduct legal proceedings to recover assets of a defaulter Member.

Accounts and Audit of the Fund

15.4. Unless the Governing Board otherwise directs, the accounts of the Fund shall be prepared and maintained as a part of the accounts of the Exchange and shall be audited as a part of the accounts of the Exchange. However, the accounts of the Fund shall be prepared and maintained distinct from, and shall not be consolidated with, the accounts of the Cash Segment Settlement Guarantee Fund of the Cash Segment of the Exchange.

Documents to be executed by Members and their Partners

15.5 Within such period as may be specified by the Clearing Council (as may be extended by the Clearing Council from time to time), every Member and every partner of every Member who is carrying on business on the Derivatives Segment in partnership shall sign and deliver to the Clearing Council agreements and other writings in such form as may be specified by the Clearing Council from time to time.

Composition of Fund

15.6. (a) The Fund shall consist of-

i. non-refundable contributions from Members as hereinafter provided,

ii. contributions from the Exchange as hereinafter provided,

iii. interest, dividend or other income arising from investments of the Fund,

iv. accretions arising from investments of the Fund,

v any money or property which the Clearing Council is entitled to appropriate to the Fund and

vi any other money or property forming part of the Fund.

(b) Unless otherwise provided by these Rules Bye-laws and Regulations, the Clearing Council and the Fund shall also have access to -

i. refundable contributions from Members as hereinafter provided,

ii. money and assets given to the Fund as security and money arising from realisation thereof,

iii. money or property received or recovered by the Clearing Council or the Derivatives Segment from any Member, partner of a Member, guarantor or other person liable to pay money to the Derivatives Segment, the Fund or the Clearing Council in connection with or pursuant to a default or suspension,

iv. any money available to the Fund upon invocation of a guarantee, and

v. any other money or property available to the Fund.

(c) The amounts mentioned in clause (b) of this Bye-law shall not be reflected in the balance sheet of the Fund unless such amounts are also mentioned in clause

(a) of this Bye-law.

EXCHANGE'S CONTRIBUTIONS TO THE FUND

Exchange's Contribution

15.7. The Exchange may, from time to time, contribute such amounts to the Fund as the Governing Board may in its absolute discretion determine. Such contribution may be refundable to the Exchange or non-refundable as the Exchange may specify.

MEMBERS' CONTRIBUTIONS TO THE FUND

Members' Initial Contributions

[1]15.8. Every Member shall contribute to the Fund such amount as may be specified by the Governing Council from time to time as initial contribution (hereinafter referred to as "Member's Initial Contribution"). Each Member shall pay the Member's Initial Contribution within such time as the Clearing Council may specify in this behalf. A Member's Initial Contribution shall be refundable and may be collected through bills raised by the Clearing House or by debiting the concerned Member's account. The Governing Council may specify different amounts for Trading Members and Clearing Members.

Members' Capital Contributions

15.9. In addition to the Members' initial contributions referred to at Bye-law [15.8] above, all money, securities, fixed deposits and other property and things which are now or which may from time to time be furnished by a Member towards Derivatives Segment Base Capital as required by SEBI shall be treated as the Member's contribution to the Fund (hereinafter referred to as **" Member's Derivatives Segment Capital Contribution"**). A Member's Derivatives Segment Capital Contribution shall be refundable to the Member in the circumstances provided in the Rules, Bye-laws and Regulations. The Member shall be entitled to receive all dividend, interest, rights entitlements, rights shares, bonus shares and other income and accretions in respect of his Derivatives Segment Capital Contribution barring interest on any cash deposited which amount will accrue to the Exchange.

Members' Continuous Contributions

15.10. At the end of every settlement, every Member shall forthwith contribute to the Fund such amount as the Governing Council may from time to time decide (hereinafter referred to as **"Member's Continuous Contribution"**). The Member's Continuous Contribution as determined by the Governing Council may be a lump sum or determined on the basis of the turnover of the Member or otherwise as may be decided by the Governing Council. A Member's Continuous Contribution shall be non-refundable and may be collected through bills raised by the Clearing House and/or by debiting the Member's account.

[1] Amended by Special Committee of Governing Council vide Resolution dated 5-12-2001 and approved by SEBI on 27-2-2002.

***Explanation*:** For the purpose of this clause "turnover" as regards any Member shall have such meaning as the Governing Council may from time to time determine.

Members' Additional Contributions

15.11. Each Member shall pay to the Fund such additional contributions as the Governing Council may from time to time determine (hereinafter referred to as **"Member's Additional Contribution"**). The Governing Council may specify different amounts for Trading Members and Clearing Members. A Member's Additional Contribution may be in such form as the Governing Council may determine (which may include cash, securities, bank guarantees or fixed deposit receipts). The Members' Additional Contributions may be refundable or non-refundable contributions as may be specified by the Governing Council and shall be in such form as the Governing Council may specify. Unless the Governing Council otherwise specifies, the Fund shall be entitled to receive all dividend, interest, rights entitlements, rights shares, bonus shares and other income and accretions in respect of the Member's non-refundable Additional Contributions. Unless the Governing Council otherwise specifies, the Member shall be entitled to receive all dividend, interest, rights entitlements, rights shares, bonus shares and other income and accretions in respect of the Member's refundable Additional Contributions. The Governing Council shall be entitled to specify the manner in which the Member's Additional Contributions shall be utilised.

General and Specific Access to Contributions

15.12(i) "Specific Access Funds" shall mean funds of the Fund which are available to the Clearing Council or to which the Clearing Council has access only in the event of default or suspension of the Member who has furnished such funds and not in case of default or suspension of any other Member and only for paying the creditors of that Member and not for paying the creditors of any other Member.

(ii) "General Access Funds" shall mean funds of the Fund which are available to the Clearing Council or to which the Clearing Council has access for application in accordance with these Rules and Bye-Laws and Regulations on the default or suspension of any Member.

(iii) The Exchange's contribution to the Fund and Member's Initial Contribution and Member's Continuous Contribution shall be General Access Funds. The Governing Council shall be entitled to determine whether any other funds of or available to the Fund are General Access Funds or Specific Access Funds.

Liability of Member Unaffected by Cessation or Suspension of Membership

15.13. Any unsatisfied obligation of a Member to the Fund shall not be discharged or otherwise prejudicially affected by the suspension or cessation of his Membership.

Action for Failure to Pay to Fund

15.14. The Governing Council or the Clearing Council may take such action as it thinks fit and proper against a Member who fails to pay any amount to the Fund including action by suspending, fining, declaring him as a defaulter, canceling his registration as a Member or expulsion from the membership of any or all of the segments of the Exchange.

Replacement of Refundable Contribution

15.15. Unless otherwise provided by these Rules and Bye-laws or any Regulations, the Clearing Council may permit a member to withdraw a refundable contribution after he has furnished to the Fund other refundable contribution of the same or greater value and of a nature acceptable to the Clearing Council.

Non-Refundable Contribution

15.16. A Member shall not be entitled to receive back any non-refundable contribution on suspension or cessation of Membership or for any other reason whatsoever.

Refund of Refundable Contributions

[1]15.17. The Clearing Council may refund a Member's refundable contribution to him upon his ceasing to be a Member provided he satisfies all the conditions which the Governing Council or the Clearing Council may from time to time specify in the Regulations or otherwise.

Provided that a Member's initial contribution under Bye-law 15.8 shall become refundable only upon the completion of one year from the cessation of membership of the concerned Member. Provided further that a member shall not be entitled to be refunded any fee, charges or other sums in the event of any money / fees remain due or payable to SEBI under SEBI (Stock Brokers and Sub-broker) Regulation, 1992 or pendency of any proceedings under the said Regulations.

Discharge of Member's Obligations

15.18. In the event of a Member ceasing to be a Member otherwise than by being declared a defaulter, the Clearing Council may retain and/or apply any unutilised refundable contribution of the Trading/Clearing Member towards discharging any of his obligations or paying any amounts payable by him as specified in the Regulations made under or pursuant to Bye-law 15.17, in such manner and in such order or priority as the Clearing Council thinks fit.

Non-Refund of Refundable Contributions

15.19 Notwithstanding anything stated above, a Member shall not be entitled to receive back any refundable contribution after it has been applied for the purposes of the Fund.

Limit on Refund of Refundable Contributions

15.20. The amount of a refundable contribution refunded to a Member shall not

[1] Amended by Special Committee of Governing Council vide Resolution dated 5-12-2001 and approved by SEBI on 27-2-2002.

exceed the actual refundable contribution available to the credit of such Member after deducting there from all sums which may be deducted or retained there from.

Contribution Part of Fund

15.21(i) A non-refundable contribution by a Member to the Fund shall form part of the Fund and the Member shall not be entitled to any rights whatsoever over the contribution in any manner.

(ii) A Member shall not be entitled to transfer, assign or otherwise deal with a refundable or non-refundable contribution made by him in any manner and the contribution shall not be liable to be attached or otherwise prejudicially affected by any attachment, injunction or other order at the instance of the Member or in respect of any obligation or liability of the Member or otherwise.

Further Contributions to the Fund

15.22. The Governing Council may on its own motion or on the recommendation of the Clearing Council at any time and from time to time take such steps as it thinks fit to increase the value of the Fund to such value as the Governing Council may consider fit and proper -

(a) by contributions from all the Members, equally or otherwise,
(b) by contributions from the Exchange and/or
(c) in such other manner as the Governing Council may decide from time to time.

Investment of Fund

15.23. (a) The Clearing Council may, subject to the instructions and directions of the Governing Council : -

(i) open, maintain, operate and close one or more bank accounts and
(ii) invest the money of the Fund in such investments as are permissible for investing the funds and money of the Exchange and sell, transfer, vary, transpose and otherwise deal with such investments.

(b) All investments of the Fund may be held in the name(s) of, and all bank accounts of the Fund may be held in the name(s) of and operated by, the Exchange, any two or more of the Trustees of the Exchange, any two or more of the members of the Clearing Council or any two or more of the members of any sub-committee appointed by the Clearing Council, as the Clearing Council may determine.

(c) The Clearing Council shall be entitled to utilise the money of the Fund only for the purposes of the Fund.

Loss to Fund Investments

15.24. Any loss or diminution in value of the investments of the Fund from whatever cause arising, not being due to the willful default or fraud of any Member(s) of the Clearing Council, or of any sub-committee or any Trustee(s), shall be borne by the Fund and the members of the Clearing Council or of the sub-committee or the Trustee(s) shall incur no responsibility or liability by

reason of or on account thereof. In case of any such loss or diminution by reason of willful default or fraud by any member of the Clearing Council or of any sub-committee or any Trustee(s), the persons committing the willful default or fraud shall be personally liable for the loss or diminution and other persons who are not parties to the willful default or fraud shall not be liable for the loss or diminution.

Intimation of Member's apprehended Failure

15.25. A Member who has reason to apprehend that he may commit any of the acts or omissions which could result in his being declared a defaulter or being suspended shall immediately notify to the Clearing Council:-

i. the details of such acts or omissions;

ii. the details and value of all his commitments, obligations and liabilities to other Members and Clients arising out of contracts or transactions made subject to the Rules, Bye-laws and Regulations of the Exchange or of the Derivatives Segment,

iii. the extent to which he will be able to discharge and meet such commitments and obligations out of his own funds and/or out of funds obtained by him from others and

iv. all the facts and circumstances which have caused or contributed to the acts or omissions which could result in his being declared a defaulter or being suspended.

Payment By Clearing Member

15.26 If a Trading Member is suspended or declared a defaulter then the Clearing Member who has undertaken to clear such Trading Member's trades/Derivatives Contracts shall be obliged to pay and discharge the liabilities and obligations of the Trading Member on the Derivatives Segment (including obligations to the Trading Member's Clients) specified in the Chapter relating to Suspension and Default and in the manner specified therein.

Payment out of Fund on Default By Clearing Member

[1]15.27 If a Clearing Member is suspended or declared a defaulter by reason of default in payment / failure to fulfill any obligations in a Settlement(s) then in respect of the settlement(s) in which the Clearing Member is suspended or declared a defaulter (and not in respect of any other Settlement(s)) the following amounts shall be paid out of the Fund before the pay-out date in the manner mentioned below:

15.27.1 The Fund shall pay to the Clearing House such amounts as are payable by such suspended or defaulter Clearing Member (whether on his own account or on account of any Trading Member for whom he was a Clearing Member or on account of any Client of any such Trading Member or of such Clearing Member) to the Clearing House to complete, in a timely manner, the Settlement in which the Clearing Member was suspended or declared a defaulter;

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

15.27.2 The Fund shall pay to the Clearing House such amounts as are payable by such suspended or defaulter Clearing Member (whether on his own account or on account of any Trading Member for whom he was a Clearing Member or on account of any Client of any such Trading Member or of such Clearing Member) to the Clearing House after transfer or closing out of such of the Outstanding Positions of all the Trading Members for whom the suspended or defaulter Clearing Member was a Clearing Member and of Clients of such Trading Members and/or of such Clearing Member as are to be transferred or closed out in accordance with the provisions of these Rules and Bye-laws and any applicable Regulations.

15.27.3 Such other amounts as may be specified by the Regulations from time to time subject to the terms and conditions specified by the Regulations.

Records to be Final

15.27.4 The finality of the records shall be as determined under Bye-law 13.5.

Adjustments by Clearing Council

[1]15.28 If any amount is payable /any obligation is due by a Member or Client to the defaulter or suspended Member then-

(i) the Clearing Council shall be entitled to set-off such amount /obligation against any amount payable from the Fund to such Member or Client.

(ii) if, such amount /obligation not having been netted out in full against money payable from the Fund, the Member or Client does not pay such amount to the Clearing Council within the time frame specified by the Clearing Council then it shall be deemed that the Member or Client has defaulted in making payment of such amount.

Liabilities of a Defaulter not Discharged

[2]15.29 Any amount paid or obligations discharged by the Fund on account of the liabilities of a defaulter or suspended Member shall be a debt due from that Member to the Exchange, and the Exchange and/or the Clearing Council shall be entitled to adopt appropriate proceedings against such Member to recover such amount /obligation.

Clearing Council's Powers to Recall

15.30(i) Notwithstanding anything stated elsewhere in the Rules, Bye-laws and Regulations, if the Clearing Council has reason to believe that any transaction -

(a) is fraudulent; or

(b) is disallowed under any Bye-law relating to the default or suspension of a Member; or

(c) is connected with payment or repayment of a deposit or loan,

(d) has been paid erroneously

then the Clearing Council shall be entitled to recover such amount.

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

[2] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

(ii) The Clearing Council shall afford an opportunity to the concerned person to be heard by giving him/them not less than seven days' written notice before finally determining to recall any amount.

(iii) For the purpose of determining whether or not to recall any amount, the Clearing Council shall be entitled to consider, *inter alia*, the surrounding circumstances, the usual course of dealings on the Exchange/Derivatives Segment, the relationship between the defaulter/suspended Member and the claimant, the quantity and price of the Derivatives Contract involved in the transaction, other similar trades and such other matters as the Clearing Council thinks relevant.

(iv) A person who is asked to repay an amount by the Clearing Council may file an appeal to the Governing Council against the decision of the Clearing Council within seven days of the Clearing Council's reasons and decision being communicated to him or such other extended period (not exceeding 15 days of the Clearing Council's decision and the reasons thereof being communicated to him) as the Governing Council may permit. Provided that such person shall not be entitled to file an appeal unless he has deposited the amount received by him with the Governing Council.

Shortfall in Fund

[1]15.31(i) In the event of the Fund being insufficient to make full payment of the payments /deliveries to be made from the Fund under Bye-laws 15.27.1, 15.27.2 and 15.27.3 then the Clearing Council shall make the payments under clause 15.27.1 in priority to the other payments and the payment /deliveries under clause 15.27.2 in priority to the payments under clause 15.27.3; and pro-rata as regards payments /deliveries falling under the same clause to the extent possible out of the Fund, and the balance unfulfilled obligations remaining after such payment /delivery may be assessed against the Members in such manner as the Clearing Council may, from time to time, in its absolute discretion think fit and equitable. The Clearing Council may provide for different amounts being assessed against Trading Members and Clearing Members.

(ii) In the event of the Fund being insufficient to make full payment /deliveries of the payments /deliverables to be made from the Fund under any provision other than Clauses 15.27.1, 15.27.2 and 15.27.3 then the Clearing Council shall make the payments /deliveries on a pro-rata basis to the extent possible out of the Fund after making the payments /deliveries under clauses 15.27.1, 15.27.2 and 15.27.3, and the Fund and/or the Exchange and/or the Derivatives Segment and/or the Clearing Council and/or the Clearing House shall not be liable to pay the balance unfulfilled obligations remaining after such payment /delivery. In such case the Claimants may claim and receive from the defaulter or suspended Member directly.

(iii) The guarantee of the Fund and payment /delivery from the Fund shall be

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

limited to the extent of the money and assets in or available to the Fund; and in the event of any shortfall, the Exchange, the Derivatives Segment, the Clearing House, the Governing Council and/or the Clearing Council shall not be liable. The claimant may however recover the shortfall from the defaulter or suspended member.

Repayment by Payee Disentitled to Receive

[1]15.32 If any sum has been paid, or any obligations been satisfied, under these Bye-laws and it is subsequently found that the payee was for any reason not entitled to receive such amount then the payee shall forthwith repay the same to the Clearing Council or the Clearing House, as the case may be, together with interest thereon at the rate of 2% per month (or such other rate as the Clearing Council may specify) for the period commencing on the date on which the payment /satisfaction was received by the payee and ending on the date on which such amount is repaid by the payee.

Money and Property of Defaulter/Suspended Member

15.33 Unless the Governing Council otherwise determines, all money (including margin money and additional capital), securities and other property whatsoever of a suspended or defaulter Member with the Derivatives Segment or the Clearing House in relation to the Derivatives Segment and all securities and money delivered or paid by the other Members into the Clearing House or to the Derivatives Segment to the credit of the suspended/defaulter Member in relation the Derivatives Segment shall be handed over to the Clearing Council and held by the Clearing House subject to these Bye-laws and the directions of the Clearing Council.

Utilisation of Money and Property for Payment and Order of Priority

15.34 For the purpose of making any payment referred to in Bye-law [15.27], the Clearing Council shall be entitled to utilise such of the money of the Fund and/or other money and assets available to the Clearing Council as the Clearing Council thinks fit.

Repayment and Payment of Interest by Defaulter/Suspended Member

15.35 If on account of the default or suspension of a Member any amount is paid by the Clearing Council out of the Fund then the defaulter or suspended Member shall be liable to forthwith repay the same to the Clearing Council to the credit of the Fund together with interest on such amount at the rate of 2% per month (or such other rate as the Governing Council may determine) for the period commencing on the date of payment by the Clearing Council and ending on the date of repayment; and, for the purposes of the Rules, Bye-laws and Regulations of the Exchange, such interest shall be deemed to be an amount paid out of/due to the Fund.

Application of Defaulters'/Suspended Members' Assets and Other Amounts

[2]15.36 The Clearing Council shall realise and apply all the money, rights and assets

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.
[2] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

of the defaulter or suspended Member which have vested in or which have been received by the Clearing Council under these Rules, Bye-laws and Regulations and all other assets and money of the defaulter or suspended member in the Derivatives Segment including the money and securities receivable by him from any other Member or Client, money, securities of the defaulter or suspended member lying with the Clearing House or the Derivatives Segment, credit balances lying in the Clearing House, security deposits, any bank guarantees furnished on behalf of the defaulter or suspended member, fixed deposit receipts discharged or assigned to or in favour of the Exchange or the Derivatives Segment, Additional Capital deposited with the Exchange by the defaulter/suspended Member, any security created or agreed to be created by the defaulter or suspended Member or any other person in favour of the Exchange or the Clearing Council for the obligations of the defaulter or suspended Member to the following purposes and in the following order of priority, viz.:-

- First - the payment of such subscriptions, debts, fines, fees, charges and other money as shall have been determined by the Clearing Council to be due to the SEBI, to the Exchange or to the Clearing House by the defaulter or suspended Member;

- Second - the balance, if any, shall be paid into the Fund to the extent of the money paid out of or obligations satisfied by the Fund or, if a Trading Member has been suspended or declared a defaulter and the Clearing Member of such Trading Member has paid all the obligations of the Trading Member in accordance with the provisions of the Chapter relating to default and suspension and consequently no amount had to be paid out of the Fund then the balance, if any, shall be paid to such Clearing Member to the extent of the money paid or obligations satisfied by it for discharging the obligations of the Trading Member in accordance with the provisions of the Chapter relating to default and suspension;

- Third - the balance, if any, shall be paid into any other fund of any other Segment of the Exchange to the extent of the money paid out of such fund;

- Fourth - subject to the Rules, Bye-Laws and Regulations of the Derivatives Segment and other segments of the Exchange, the balance, if any, shall be applied by the Clearing Council for the payment of such unpaid outstandings, debts, liabilities, obligations and claims (other than claims falling under Bye-law 15.27) to or of Members arising out of any contracts made by the defaulter with such Members subject to these Rules, Bye-laws and Regulations as shall have been admitted by the Clearing Council; provided that if the amount available be insufficient to pay and satisfy all such debts, liabilities, obligations and claims in full they shall be paid and satisfied pro rata;

- Fifth - subject to the Rules, Bye-Laws and Regulations of the Derivatives Segment and other segments of the Exchange, the balance, if any, shall be applied by the Clearing Council for the payment of such unpaid debts, liabilities, obligations and claims (other than claims falling under Bye-law 15.27) to or of the defaulter or suspended Member's Clients arising out of any contracts made by such defaulter or suspended Member subject to these Rules, Bye-laws and Regulations as shall have been admitted by the Clearing Council; provided that if the amount available be insufficient to pay and satisfy all such debts, liabilities, obligations and claims in full they shall be paid and satisfied pro rata;
- Sixth - subject to the Rules, Bye-Laws and Regulations of the Derivatives Segment and other segments of the Exchange, the balance, if any, shall be applied by the Clearing Council for the payment of such unpaid outstandings, debts, liabilities, obligations and claims to or of any members of the Exchange arising out of any contracts made by the defaulter with such members on any other segment of the Exchange subject to the Rules, Bye-laws and Regulations of the Derivatives Segment and other segments of the Exchange as shall have been admitted by the Clearing Council ; provided that if the amount available be insufficient to pay and satisfy all such debts, liabilities, obligations and claims in full they shall be paid and satisfied pro rata;
- Seventh - subject to the Rules, Bye-Laws and Regulations of the Derivatives Segment and other segments of the Exchange, the balance, if any, shall be applied by the Clearing Council for the payment of such unpaid debts, liabilities, obligations and claims to or of the defaulter or suspended Member's Clients arising out of any contracts made by such defaulter or suspended Member on any other segment of the Exchange subject to the Rules, Bye-laws and Regulations of the Derivatives Segment and other segments of the Exchange as shall have been admitted by the Clearing Council; provided that if the amount available be insufficient to pay and satisfy all such debts, liabilities, obligations and claims in full they shall be paid and satisfied pro rata;

- Eight - the balance, if any, shall be paid into the Derivatives Segment's Investor Protection Fund to the extent of any and all amounts paid out of the Investor Protection Fund towards the obligations or liabilities of the defaulter or suspended member and interest thereon at the rate of 2% per month (or such other rate as the Governing Council may specify) from the date of payment out of the Investor Protection Fund to the date of repayment to the Fund; and
- Ninth - the surplus, if any, shall be paid to the defaulter or suspended Member.

Charge on Defaulter's/Suspended Member's Assets

[1]15.37 Upon payment of any money /satisfaction of any obligation out of the money

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

or property of the Fund, the Exchange, for the benefit of the Fund, shall have a first charge on all assets and property of the defaulter or suspended Member wherever situated and of whatsoever nature as security for the repayment of such money /obligation and the payment of interest thereon subject only to any and all charges, mortgages and other encumbrances created thereon by the defaulter or suspended Member bona fide for valuable consideration prior to the day such payment/satisfaction was made by the Fund.

Proceedings by Clearing Council, Exchange, etc.

15.38 For the purpose of recovering any amount payable by the defaulter or suspended Member to the Exchange, the Clearing House, the Clearing Council, the Fund, the Investor Protection Fund, the Exchange, the Chief Executive Officer of the Derivatives Segment and/or the Executive Director shall be entitled to take such steps and proceedings (including but not limited to sale of any property or a portion thereof) it or they may think fit against the defaulter or suspended Member, the defaulter or suspended Member's property and any person by whom any amount is payable to the defaulter or suspended Member.

Borrowings

15.39 For the purpose of making any payments the Clearing Council may borrow money without security and/or against the security of any property of the Fund and/or any property offered to it as security by the defaulter or suspended Member or any other Member.

Expenses of the Fund

15.40 The members of the Clearing Council shall not be entitled to any remuneration out of the Fund but shall be entitled to charge to the Fund all expenses of creation, administration and management of the Fund including fees of auditors, legal advisors, chartered accountants, valuers and other professional advisers and salaries, wages and all related costs, charges and expenses in connection with the creation, administration or management of the Fund and the exercise of the powers of the Fund.

Indemnity

15.41 Without prejudice to the above, the Fund shall bear all costs, charges and expenses for all suits, actions, proceedings and claims filed or made against the Governing Council/Clearing Council or any member of the Governing Council/Clearing Council except those arising out of their willful default or fraud and the members of the Governing Council/Clearing Council shall be indemnified by the Fund from and against all actions, proceedings, losses, damage, claims, liabilities, costs, charges and expenses in connection with the Fund or the creation, management and administration thereof or any dealings therewith except those arising by reason of their willful default or fraud.

Confidentiality

15.42 All minutes and proceedings of and all information obtained by the Exchange,

the Chairman, the Executive Director, the Chief Executive Officer of the Derivatives Segment, the Governing Council and the Clearing Council shall be deemed confidential.

Correspondence

15.43 The Clearing Council shall not be obliged to recognise or act upon any communication unless it is in writing, discloses the identity and address of the person addressing the communication and is signed by the person addressing the communication.

Arbitration

15.44 Any claim, dispute or difference between the Exchange, the Derivatives Segment, the Clearing House or the Clearing Council on the one hand and a Member or a defaulter or suspended Member on the other hand in connection with any amount payable or alleged by the Exchange, the Derivatives Segment, the Clearing House or the Clearing Council as being payable by the Member or the defaulter or suspended Member to the Exchange, the Clearing Council, the Clearing House or the Fund shall be referred to the arbitration of the Executive Director of the Exchange or to the arbitration of such person as the Executive Director may nominate in this behalf.

Limitation of Liability to Pay

[1]15.45 Notwithstanding anything stated elsewhere in the Rules, Bye-laws and Regulations, the Clearing Council shall not pay any of the following amounts or discharge any of the following obligations from the Fund**:-**

(i) any amount payable by the defaulter or suspended Member to the Clearing House on account of costs, charges, expenses, fines or penalties;

(ii) any amount payable by the defaulter or suspended Member to any Client on any account whatsoever other than pursuant to Regulations made under Clause 15.27.3 above ;

(iii) any amount payable by the defaulter or suspended Member in respect of a transaction which is not part of the Derivative Segment or Exchange's settlement procedure;

(iv) any amount payable by the defaulter or suspended Member in respect of any transaction which would have been settled otherwise than through the Clearing House (if such default or suspension had not occurred); and

(v) any amount payable by the defaulter or suspended Member in respect of any Settlement(s) other than the Settlement(s) in which the concerned Clearing Member was suspended or declared a defaulter.

Provided however that no claims shall be entertained which are collusive or entered into to defraud any person or any part of the Exchange or which are otherwise not bona fide.

Power to Specify Further Enabling Provisions

15.46 The Governing Council and the Clearing Council shall be entitled to specify the procedures for carrying out the provisions of this Chapter and shall also be

[1] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

entitled to issue clarifications and directions for removing any difficulties in implementing the provisions of this Chapter.

[1]15.47 Without prejudice to the Fund's other rights, the Fund may fulfill an obligation to deliver securities by, at its option, either delivering the securities or paying the value therefore as determined by the Clearing Council and, in such event, such obligation shall be deemed to be satisfied in full.

CHAPTER XVI

16. INVESTOR PROTECTION FUND

Generally

16.1. The Exchange shall establish an Investor Protection Fund **each** for the Derivatives Segment and the Currency Derivatives Segment separately as provided below.

Corpus

16.2. Each Member shall contribute such amounts as are determined by the Governing Council towards the corpus of the Fund. The Governing Council may determine different contribution amounts for Clearing Members and Trading Members. The Governing Council may also augment the Investor Protection Fund from such sources as it may deem fit.

Triggering Event

[2]16.3 Subject to the other Rules, Bye-laws and Regulations, the Investor Protection Fund shall be utilised to compensate a Client who has suffered and claims an obligation due to him by a Trading or Clearing Member (who has since been declared a defaulter) where:-

(i) the claim arises directly on account of a trade in a Derivatives Contract which has been entered into between the Client and the Trading/Clearing Member (who has since been declared a defaulter) in accordance with the Rules, Bye-laws and Regulations of the Derivatives Segment

(ii) the trade in the Derivatives Contract has already been settled by the Clearing House but the obligation in respect of which Derivatives Contracts has not been completed by the Trading/Clearing Member to the concerned Client and

(iii) the loss is not payable by a Clearing Member under the Chapter relating to Default and Suspension or from the Derivatives Segment Settlement Guarantee Fund under the Chapter relating to the Fund.

[1] Inserted by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.
[2] Amended by Governing Council vide Resolution dated 11-1-2001 and approved by SEBI on 21-5-2001.

(iv) the claim fulfills such other requirements as the Derivatives Segment may specify from time to time.

[1]16.3A Subject to and as provided by SEBI and/or as agreed between the regional stock exchange and the Exchange, the Investor Protection Fund shall also be utilized for the bona fide trade/ transactions executed on the Derivative Segment of the Exchange by the members of the regional stock exchange. The provisions of the "Investor Protection Fund" as contained in these Bye-laws shall, to the extent applicable, also apply to the transaction executed by the members of the regional stock exchange on this segment.

Claim of Compensation

16.4 The amount which a Client shall be entitled to claim as compensation shall be the actual amount payable to him (including reasonable costs incidental to the making and proving of his claim as per the scale of costs specified by the Derivatives Segment), subject to a maximum limit as provided below. The amount will be reduced by any amount or other benefits received or receivable by him from any source in reduction of the loss and by any amount payable by such Client to the defaulter Member or to any other Member or to the Exchange.

Cap on Pay-out

16.5 (i) A Client shall not be entitled to receive in excess of such amount as may be decided by the Governing Council from time to time.

(ii) The liability of the Investor Protection Fund shall not exceed the funds available in the Investor Protection Fund and in respect of any unpaid claims, on account of insufficiency of funds the Exchange or the Derivatives Segment shall not be liable and the Clients may proceed against the Defaulter Member for the same.

Claims

16.6. The Derivatives Segment shall cause to be published in a daily newspaper published and circulating widely, a notice specifying a date not being less than 3 months after the said publication, on or before which claims for compensation in relation to the person specified in the notice, may be made. A claim for compensation in respect of a default shall be made in writing to the Derivatives Segment on or before the date specified in the said notice and any claim which is not so made shall be barred unless the Derivatives Segment otherwise determines.

Adjudication of Appeal

16.7 Every claim shall in the first instance be referred to arbitration in accordance with these Rules, Bye-laws and Regulations relating to arbitration. In the event of the award being passed in favour of the Client, the Client shall lodge the award and all the pleadings filed in the arbitration proceedings with the

[1] Inserted by Governing Council Resolution Dt. 03/10/2011 and approved by SEBI on 24th April, 2012

Governing Council. The Governing Council shall scrutinise the Client's claim and, if satisfied that the claim is bona fide and is otherwise eligible to receive payment from the Investor Protection Fund, the Governing Council shall direct the payment thereof from the Fund to the extent permissible. If the Governing Council is not satisfied that the claim is bona fide it shall reject the claim and inform the Client accordingly along with the reasons for the Governing Council's decision. The Governing Council shall be entitled to call upon the Client to produce such other information and documents as it may consider necessary for scrutinising the Client's claim and may reject the claim if the Client fails to produce such information and documents. The Governing Council shall not be obliged to accept or direct payment of a claim merely because an arbitration award has been passed in favour of the Client or because the arbitration award has been passed with the consent of the Trading/Clearing Member or because the Trading/Clearing Member did not oppose the Client's claim.

Charge on Defaulter's Assets

16.8 Upon payment of any money out of the Investor Protection Fund, the concerned defaulter shall forthwith repay the money to the Investor Protection Fund along with interest at the rate of 2% per month (or such other rate as the Governing Council may determine). The Exchange, for the benefit of the Investor Protection Fund, shall have a first charge (subject only to and subservient to the charge in favour of the Derivatives Segment Settlement Guarantee Fund under these Rules, Bye-laws and Regulations) on all assets and properties of the defaulter Member wherever situated and of whatsoever nature as security for the repayment of such money and the payment of interest thereon at the rate of 2% per month (or such other rate as the Governing Council may determine) subject only to any and all charges, mortgages and other encumbrances created thereon by the defaulter or suspended Member *bona fide* for valuable consideration prior to the day such payment was made out of the Investor Protection Fund.

Procedures to be Specified

16.9 The Derivatives Segment shall be entitled to specify the procedures for carrying out the provisions of this Chapter and shall also be entitled to issue clarifications and directions for removing any difficulties in implementing the provisions of this Chapter.

Management of the Fund

16.10 Subject to the Rules, Bye-laws and Regulations of the Derivatives Segment, the Governing Council shall have complete control over the management and administration of the Fund. In addition to the powers conferred by the other provisions of the Rules, Bye-laws and Regulations of the Derivatives Segment, the Governing Council shall be vested with all powers, authorities and discretions necessary or expedient for, or incidental to the management and administration of the Fund or for achieving the object and purpose of the Fund.

16.11 Without prejudice to the generality of the aforesaid, the Governing Council and the Governing Council shall have for the purposes of the fund, the power to-

(a) summon Clients, Members, partners of Members and directors of Members who are companies or other corporate bodies to appear before the Governing Council and question them;
(b) call upon Clients, Members, partners of Members, and directors of Members who are companies or other corporate bodies to furnish to the Governing Council such information, documents and papers as the Governing Council may require and within the period specified by the Governing Council;
(c) specify forms, agreements, affidavits, undertakings and other writings to be signed by Clients, Members, partners of Members, directors of Members who are companies or other corporate bodies or by other persons and specify the period within which the same should be signed and submitted,
(d) invest or otherwise deal with the money of the Fund;
(e) realise or otherwise deal with any security or other property offered to the Fund;
(f) borrow money without security or against the security of the Fund, or any property of, or available to, or accessible by the Fund, or otherwise;
(g) enter into financial arrangements with banks, institutions, companies and other persons;
(h) issue guarantees and indemnities;
(i) delegate any of the powers and functions of the Governing Council to one or more sub-committees comprising of one or more members of the Governing Council and/or delegate any of the administrative powers and functions of the Governing Council to one or more employees of the Derivatives Segment or to any other persons subject to such terms and conditions as the Governing Council may think fit to impose;
(j) do all such acts as the Governing Council considers necessary to protect or advance the interests of the Fund or to achieve the purposes and objects of the Fund;
(k) institute and conduct legal proceedings to recover assets of a defaulter.

Accounts and Audit of the Fund

16.12 Unless the Governing Board otherwise directs, the accounts of the Fund shall be prepared and maintained as a part of the accounts of the Exchange and shall be audited as a part of the accounts of the Exchange.

Liability of Member Unaffected by Cessation or Suspension of Membership

16.13 Any unsatisfied obligation of a Member to the Fund shall not be discharged or otherwise prejudicially affected by the suspension or cessation of his membership.

Action for Failure to Pay to Fund

16.14 The Governing Council may take such action as it thinks fit and proper

against a Member who fails to pay any amount to the Fund including action by suspending, fining, declaring him as a defaulter, canceling his registration as a Member or expulsion from the membership of the Exchange.

Investment of Fund

16.15 (a) The Governing Council may,: -

(i) open, maintain, operate and close one or more bank accounts and

(ii) invest the money of the Fund in such investments as are permissible for investing the funds and money of the Exchange and sell, transfer, vary, transpose and otherwise deal with such investments.

(b) All investments of the Fund may be held in the name(s) of, and all bank accounts of the Fund may be held in the name(s) of and operated by, the Exchange, any two or more of the Trustees of the Exchange, any two or more of the members of the Governing Council or any two or more of the members of any sub-committee appointed by the Governing Council, as the Governing Council may determine.

(c) The Governing Council shall be entitled to utilise the money of the Fund only for the purposes of the Fund.

Loss to Fund Investments

16.16. Any loss or diminution in value of the investments of the Fund from whatever cause arising, not being due to the willful default or fraud of any Member(s) of the Governing Council, or of any sub-committee or any Trustee(s), shall be borne by the Fund and the members of the Governing Council or of the sub-committee or the Trustee(s) shall incur no responsibility or liability by reason of or on account thereof. In case of any such loss or diminution by reason of willful default or fraud by any member of the Governing Council or of any sub-committee or any Trustee(s), the persons committing the willful default or fraud shall be personally liable for the loss or diminution and other persons who are not parties to the willful default or fraud shall not be liable for the loss or diminution.

16.17(i) Notwithstanding anything stated elsewhere in the Rules, Bye-laws and Regulations, if the Governing Council has reason to believe that any transaction -

(a) is fraudulent; or
(b) is disallowed under any Bye-law relating to the default or suspension of a Member; or
(c) is connected with payment or repayment of a deposit or loan,
(d) has been paid erroneously

then the Governing Council shall be entitled to recover such amount.

(ii) The Governing Council shall afford an opportunity to the concerned person to be heard by giving him/them not less than seven days written notice before finally determining to recall any amount.

(iii) For the purpose of determining whether or not to recall any amount, the Governing Council shall be entitled to consider, *inter alia*, the surrounding circumstances, the usual course of dealings on the Exchange/Derivatives Segment, the relationship between the defaulter Member and the claimant, the quantity and price of the Derivatives Contract/securities involved in the transaction, other similar trades and such other matters as the Governing Council thinks relevant.

Repayment by Payee Disentitled to Receive

16.18 If any sum has been paid under these Bye-laws and it is subsequently found that the payee was for any reason not entitled to receive such amount then the payee shall forthwith repay the same to the Fund together with interest thereon at the rate of 2% per month (or such other rate as the Governing Council may specify) for the period commencing on the date on which the payment was received by the payee and ending on the date on which such amount is repaid by the payee.

Proceedings by Governing Council

16.19 For the purpose of recovering any amount payable by the defaulter Member to the Fund, the Governing Council and/or the Chief Executive Officer of the Derivatives Segment shall be entitled to take such steps and proceedings (including but not limited to sale of any property of the defaulter or a portion thereof) as it/he may think fit against the defaulter Member, the defaulter Member's property and any person by whom any amount is payable to the defaulter Member.

Expenses of the Fund

16.20 The members of the Governing Council shall not be entitled to any remuneration out of the Fund but shall be entitled to charge to the Fund all expenses of creation, administration and management of the Fund including fees of auditors, lawyers, legal advisors, chartered accountants, valuers and other professional advisers and salaries, wages and all related costs, charges and expenses in connection with the creation, administration or management of the Fund and the exercise of the powers of the Fund.

Indemnity

16.21 Without prejudice to the above, the Fund shall bear all costs, charges and expenses for all suits, actions, proceedings and claims filed or made against the Governing Council or any member of the Governing Council except those arising out of their willful default or fraud and the members of the Governing Council shall be indemnified by the Fund from and against all actions, proceedings, losses, damage, claims, liabilities, costs, charges and expenses in connection with the Fund or the creation, management and administration thereof or any dealings therewith except those arising by reason of their

willful default or fraud.

Confidentiality

16.22 All minutes and proceedings of and all information obtained by the Exchange, the Chairman, the Executive Director, the Chief Executive Officer, and the Governing Council shall be deemed confidential.

Correspondence

16.23 The Governing Council shall not be obliged to recognise or act upon any communication unless it is in writing, discloses the identity and address of the person addressing the communication and is signed by the person addressing the communication.

Arbitration

16.24 Any claim, dispute or difference between the Derivatives Segment or the Governing Council on the one hand and a defaulter Member on the other hand in connection with any amount payable or alleged by the Derivatives Segment or the Governing Council as being payable by the defaulter to the Fund shall be referred to the arbitration of the Chief Executive Officer of the Derivatives Segment or to the arbitration of such person as the Chief Executive Officer may nominate in this behalf.