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भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

CIR/MRD/DSA/01/2016 January 01, 2016

All recognised Stock Exchanges/ Listed Stock exchange
All Depositories

Ms. Neena Jindal
Rep. 11/1/2016
Mr. G. Iyer - member

Dear Sir/Madam,

Sub: Procedures for ensuring compliance with Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 (SECC Regulations) by Listed Stock Exchanges.

1. Regulation 45 of the SECC Regulations provides for listing of stock exchanges. As per Regulation 45(2) of the SECC Regulations, the Board may specify such conditions as it may deem fit in the interest of the securities market.

2. Accordingly, it has been decided to prescribe the following modalities so as to ensure compliance with the provisions of SECC Regulations.

   I. **Ensuring holding of 51 per cent by public at all times by the listed stock exchange:**

      i. The listed stock exchange shall disseminate the details of its shareholding with category wise breakup (as per the format specified vide SEBI Circular dated October 24, 2011), on a continuous basis, on its website. Similarly, the stock exchange where the shares are listed, shall also display the above information.

      ii. The depositories shall put in place necessary system to ensure that the shareholding of trading members or their associates and agents does not exceed 49 per cent. For this purpose, the depositories shall put in place systems for capturing the shareholding data of

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trading members or their associates and agents and ensure that there is a mechanism for coordination between the depositories towards sharing of information. The depositories shall also monitor the aggregate shareholding limit of the trading members or their associates and agents based on their demat balance, on a daily basis, at the end of the day. The stock exchange where the shares are listed shall share a list of all trading members or their associates and agents with the depositories to facilitate monitoring of demat balances.

iii. The trading members or their associates and agents shall obtain prior approval of the listed stock exchange for further acquisition of shares, once the aggregate shareholding of the trading members or their associates and agents crosses the limit of 45 per cent. The trading members or their associates and agents shall refer to the shareholding pattern under the category of trading members or their associates and agents, to determine/ascertain the available head room before placing the order.

iv. In the event of trading members or their associates and agents making purchases without requisite approval as stated above, the depositories shall initiate consequential action such as freezing of voting rights and all corporate benefits in respect of such shareholding till the time the same is divested.

v. The divestment of any excess shareholding beyond the specified limit would be through a special window provided by the stock exchange where the shares of the stock exchange are listed.

II. Ensuring that all shareholders are fit and proper:

i. In the pre-listing scenario, the exchange coming out with a public offering shall include a declaration in the application form stating that the applicant is fit and proper in terms of Regulation 19 and 20 of SECC Regulations, 2012.

ii. In the post listing scenario, the text of the applicable regulation with regard to fit and proper shall be made part of the contract note.

iii. The listed stock exchange shall also undertake all measures to make investors aware of the requirement of fit and proper criteria

for being its shareholders as specified in regulation 19 and 20 of SECC Regulations.

iv. The listed stock exchange and the stock exchange where the shares are listed shall notify on their websites that the shares of the listed stock exchange shall only be dealt by fit and proper persons as per Regulation 19 and 20 of SECC Regulations.

v. In case of acquisition of shares by the person who is found not fit and proper, the voting rights and all corporate benefits with respect to such shareholding shall be frozen by depositories until the same is divested through the special window.

vi. The listed stock exchange shall submit to SEBI on a quarterly basis an exceptional report regarding the shareholders who are not fit and proper and action taken thereof.

III. Ensuring that shareholders holding shares above 2 per cent are fit and proper:

i. In addition to the criteria mentioned at para 2(II) above, on acquisition of shares above 2 per cent, provisions under Regulation 19(2) and 19(3) of SECC Regulations 2012 shall apply i.e. those acquiring more than 2 per cent shall seek approval of SEBI within 15 days of acquisition as per Regulation 19(2) and those intending to acquire beyond 5 per cent as per Regulation 19(3) have to seek prior approval of SEBI.

IV. Ensuring shareholding threshold of 5 per cent or 15 per cent as the case may be in terms of SECC Regulations:

i. The depositories shall put in place a mechanism to ensure that no shareholder of listed stock exchange gets credit of shares beyond 5 per cent or 15 per cent, as applicable. The depositories shall generate an alert when such holding exceeds 2 per cent and monitor the same under intimation to SEBI.

ii. The Depository would inform the listed stock exchange as and when threshold limit is breached and take consequential action such as freezing of voting rights and all corporate actions in respect of such excess holding till the same is divested through the special window.

3. The stock exchanges, both listed and where the securities are listed, and depositories shall ensure that aforesaid mechanism be in place latest by March 31, 2016.

4. The stock exchange submitting application for listing of its securities to SEBI shall ensure strict compliance with Chapter VII of SECC Regulations, 2012.

5. In view of the above, the recognised stock exchanges are advised to:-
   (a) make necessary amendments to the their bye-laws, rules or regulations, for incorporation of the above immediately;
   (b) bring the provisions of this circular to the notice of its trading members and also to disseminate the same through their website ; and
   (c) communicate to SEBI, the status of implementation of this circular in the Monthly Development Reports to SEBI.

6. This circular is issued in exercise of powers conferred under Section 11(1) and 11(2)(j) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

7. This circular is available on SEBI website at www.sebi.gov.in.

Yours faithfully,

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Deputy General Manager
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