

**NATIONAL STOCK EXCHANGE  
(FUTURES & OPTIONS SEGMENT) TRADING REGULATIONS**

**CONTENTS**

	Pg. Nos.
<b>INTRODUCTION</b> .....	
<b>APPLICABILITY</b> .....	
<b>1. DEFINITIONS</b> .....	
<b>1.3 DEFINITIONS</b> .....	
1.3.1 American Style Option Contract.....	
1.3.2 Approved Office.....	
1.3.3 Approved Workstation.....	
1.3.4 Approved user .....	
1.3.5 At the money or Near the money strike price .....	
1.3.6 Authorised Person .....	
1.3.7 Books of Accounts, Records And Documents.....	
1.3.8 Branch Office.....	
1.3.9 Clearing Corporation.....	
1.3.10 Clearing Member .....	
1.3.11 Closing buy transaction.....	
1.3.12 Closing sell transaction.....	
1.3.13 Common Pool facility.....	
1.3.14 Constituent .....	
1.3.15 Contract Value .....	
1.3.16 Contract Month.....	
1.3.17 Corporate Actions .....	
1.3.18 Deal, Transaction, Dealing And Contract.....	
1.3.19 Derivatives Contract .....	
1.3.20 Exercise .....	
1.3.21 Exercise Price .....	
1.3.22 Exercise Style .....	
1.3.23 Expiration Day.....	
1.3.24 Expiration Time .....	
1.3.25 European Style option contract.....	
1.3.26 Futures Contract.....	
1.3.27 In the money strike price .....	
1.3.28 Last Trading Day .....	
1.3.29 Long Position .....	
1.3.30 Market Type .....	
1.3.31 Member-Constituent Agreement .....	
1.3.32 Members Open Position.....	
1.3.33 Notification, Notice Or Communication.....	
1.3.34 NSE.....	
1.3.35 Opening buy transaction .....	
1.3.36 Opening sell transaction.....	

1.3.37	Open Interest.....	
1.3.38	Option Class .....	
1.3.39	Option Contract .....	
1.3.40	Option Holder .....	
1.3.41	Option Seller .....	
1.3.42	Option Writer .....	
1.3.43	Out of the money strike price .....	
1.3.44	Outstanding Obligation.....	
1.3.45	Participant .....	
1.3.46	Permitted Derivatives Contract.....	
1.3.47	Premium .....	
1.3.48	Regular lot/Market Lot Size .....	
1.3.49	Risk Disclosure Document .....	
1.3.50	Series of Options .....	
1.3.51	Settlement Date.....	
1.3.52	Settlement Price .....	
1.3.53	Short Position.....	
1.3.54	Strike Price Interval .....	
1.3.55	Trading cycle .....	
1.3.56	Trading Member .....	
1.3.57	Trade Type.....	
1.3.58	Trading System.....	
1.3.59	Type of option .....	
1.3.60	Underlying .....	
1.3.61	Underlying Securities.....	
<b>2.</b>	<b>DEALINGS ON THE F&amp;O SEGMENT OF THE EXCHANGE .....</b>	
2.1	TRADING SYSTEM.....	
2.2	TRADING MEMBERS AND APPROVED USERS.....	
2.3	TRADING DAYS.....	
2.4	TRADING HOURS.....	
2.5	TRADING CYCLE .....	
2.6	CONTRACT EXPIRATION.....	
2.7	TRADING PARAMETERS.....	
2.8	MARKET TYPES/TRADE TYPES /TRANSACTION TYPES.....	
2.9	FAILURE OF TRADING MEMBERS' TERMINAL.....	
<b>3.</b>	<b>DEALINGS IN DERIVATIVES CONTRACTS .....</b>	
3.1	DEALINGS IN DERIVATIVES CONTRACTS .....	
3.2	POSITION LIMIT .....	
3.3	ACTION BY RELEVANT AUTHORITY .....	
3.4	TRADE OPERATIONS .....	

3.5	ORDER MANAGEMENT.....	
3.5.1	Order Type.....	
3.5.2	Order Attributes.....	
3.5.3	Modification and Cancellation of Orders .....	
3.5.4	Order Validation.....	
3.5.5	Matching Rules.....	
3.6	CONTRACT NOTE .....	
3.6A	.....	
3.7	BROKERAGE .....	
3.8	DEPOSIT REQUIREMENTS .....	
3.9	MARGIN REQUIREMENTS .....	
3.10	MARGIN FROM THE CONSTITUENTS .....	
3.11	.....	
3.12	COLLECTION OF SECURITIES TRANSACTION TAX	
3.13	.....	
<b>4</b>	<b>CONDUCT OF BUSINESS BY TRADING MEMBERS .....</b>	
4.1	OFFICE RELATED PROCEDURE.....	
4.2	SUPERVISION.....	
4.2.1	Procedures to be Followed.....	
4.2.2	Internal Inspections.....	
4.2.3	Written Approval.....	
4.2.4	Qualifications Investigated .....	
4.3	RELATION WITH CONSTITUENTS .....	
4.4	GUIDELINES GOVERNING RELATIONSHIP BETWEEN TRADING MEMBER AND CONSTITUENT .....	
4.5	CODE OF CONDUCT FOR TRADING MEMBERS.....	
4.5.1	Adherence to SEBI Code of Conduct .....	
4.5.2	General Principles .....	
4.5.3	Trading Principles .....	
4.5.4	General Guidelines.....	
4.6	FRAUDULENT AND UNFAIR TRADING PRACTICES.....	
<b>5.</b>	<b>ARBITRATION .....</b>	
5.1	DEFINITIONS.....	
5.2	SEAT OF ARBITRATION .....	
5.3	JURISDICTION OF COURTS	
5.4	REFERENCE OF THE CLAIM, DIFFERENCE OR DISPUTE.....	
5.5	CRITERIA AND PROCEDURE FOR SELECTION OF PERSONS ELIGIBLE TO ACT AS ARBITRATORS .....	
5.6	PROCEDURE FOR APPOINTMENT OF ARBITRATORS.....	

5.7	VACANCY IN THE OFFICE OF THE ARBITRATOR.....
5.8	COST OF ARBITRATION.....
5.9	PROCEDURE FOR ARBITRATION.....
5.10	REQUIREMENT FOR HEARINGS.....
5.11	NOTICE OF HEARING.....
5.12	ADJOURNMENT OF HEARING .....
5.13	ARBITRAL AWARD ON AGREED TERMS .....
5.13 A	ARBITRAL AWARD UNDER CERTAIN CIRCUMSTANCES...
5.14	MAKING OF ARBITRAL AWARD.....
5.15	INTEREST.....
5.16	ARBITRATION FEES AND CHARGES, COSTS, ETC.....
5.17	ADMINISTRATIVE ASSISTANCE WHICH MAY BE PROVIDED BY THE EXCHANGE.....
5.18	MODE OF COMMUNICATION.....
5.19	.....
5.20	.....
5.21	APPELLATE ARBITRATION
<b>6.</b>	<b>RECORDS, ANNUAL ACCOUNTS &amp; AUDIT .....</b>
6.1	RECORDS.....
6.2	ANNUAL ACCOUNTS AND AUDIT .....
<b>7.</b>	<b>INSPECTION.....</b>
7.1	INSPECTION AUTHORITY.....
7.2	NOTICE .....
7.3	OBLIGATIONS OF A TRADING MEMBER ON INSPECTION .....
7.4	SUBMISSION OF REPORT.....
7.5	COLLECTION AND DISSEMINATION OF INFORMATION.....

## ANNEXURES

- I. APPLICATION FOR APPROVAL AS APPROVED USER
- II. CONTRACT NOTE
  - A. As brokers & Agents
  - B. As Principals
- III. MEMBER AND CONSTITUENT AGREEMENT
- IV. FORMAT OF THE CONSTITUENT REGISTRATION FORM
- V. RISK DISCLOSURE DOCUMENT

## **INTRODUCTION**

The Regulations framed hereunder shall be known as National Stock Exchange (Futures & Options) Trading Regulations, 2000.

These Regulations shall be in addition to the provisions of the Securities Contracts (Regulations) Act, 1956, the Securities Contracts (Regulations) Rules, 1957, Securities and Exchange Board of India Act, 1992 and Rules and Byelaws of National Stock Exchange of India Limited (NSEIL), as may be applicable to Trading Members and Participants.

## **APPLICABILITY**

These Regulations (read in conjunction with Approved User Manual) shall be applicable to all Trading Members and Participants in the Futures & Options Segment of National Stock Exchange. These Regulations shall also be applicable mutatis mutandis to all the Trading Members and Participants in the currency derivatives segment of National Stock Exchange unless the context requires otherwise or unless otherwise specified by the relevant authority from time to time. They shall be subject to jurisdiction of the Courts of Mumbai irrespective of the place of business of Trading Members in India.

## **1. DEFINITIONS**

**1.1** Unless in the context it is explicitly stated otherwise, all words and expressions used herein but not defined, and defined in the following, shall have the meanings respectively assigned to them therein:

- (1) Securities Contract (Regulations) Act, 1956 and/or Rules thereunder
- (2) Securities and Exchange Board of India Act, 1992 and/or Rules thereunder
- (3) The Companies Act, 1956
- (4) The Depositories Act, 1996
- (5) Rules, Byelaws and/or Regulations of F&O Segment of National Stock Exchange of India Limited
- (6) Rules, Byelaws and/or Regulations of National Securities Clearing Corporation Limited

**1.2** In case a term is defined in more than one acts then its meaning as defined in that act or statute which proceeds in the above order shall prevail, unless in the context it is explicitly stated otherwise.

### **1.3 DEFINITIONS**

#### **1.3.1 American Style option contract**

American Style option contract means an option contract which may be exercised on any day on or before the expiration day.

#### **1.3.2 Approved Office**

Approved office means the registered office of a Trading Member including such premises or offices from which the member is allowed by the F&O Segment of the Exchange to trade on the Trading system and carry out back office work and other related works.

#### **1.3.3 Approved Workstation**

Approved workstation refers to such trading workstation of a Trading Member or a Participant comprising of computer terminal(s) and all associated equipment installed and connected to the Trading System and used by the trading member or the Participant for the purpose of market inquiry, execution of orders/trades and settlement of its trades in the Futures & Options Segment on the Trading System, and all other actions associated with the trading and settlement on the Trading System.

#### **1.3.4 Approved user**

Approved user is an individual person as approved by the F&O Segment of the Exchange under Regulation 2.2.10 of the National Stock Exchange (Futures & Options) Trading Regulations, 2000.

**1.3.5 At the money or Near the money strike price**

‘At the money or Near the money’ strike price is the strike price of the option contract at or within such range of the underlying as may be specified by the Relevant Authority from time to time.

**1.3.6 Authorised Person**

Authorised Person means a person being an individual, registered partnership firm or company as defined under the Companies Act, 1956 who is approved as such by the Exchange and who is employed whether through a contract of employment or otherwise by a Trading member /Participant for remuneration (whether by way of salary, commission, allowance or otherwise) expressed in terms of money or capable of being so expressed and gets such remuneration directly or indirectly from the trading member or a Participant for any activity relating to the trades done and executed on the F&O Segment of the Exchange.

Explanation:

For the purpose of these regulations, the term shall also include any person who is undergoing any kind of training or assigned any project work in pursuance of the requirements of any University or other academic body.

**1.3.7 Books of Accounts, Records and Documents**

Books of accounts, records and documents include books of accounts, records and documents which are required to be maintained under Chapter 6 of the Regulations of the F&O Segment of the Exchange and records maintained in a computer or in any magnetic form.

**1.3.8 Branch Office**

Branch office in relation to a Trading Member means :-

- (a) any establishment described as a branch
- (b) any establishment carrying on either the same or substantially the same activity as that carried on by the head office
- (c) any other place which the F&O Segment of the Exchange may notify

**1.3.9 Clearing Corporation**

Clearing Corporation for the purpose of these regulations means the Futures & Options Segment of the National Securities Clearing Corporation Limited or any other body which may be identified by the F&O Segment of the Exchange for the purpose of performing the clearing and settlement of Derivatives contracts.

**1.3.10 Clearing Member**

Clearing Member means a Member of the Clearing Corporation and includes all categories of Clearing Members as may be admitted as such to the Futures &

Options Segment of the Clearing Corporation. In case of a Clearing Member who is also a Trading Member of the Futures & Options Segment of the Exchange the term Trading Member could be read as Clearing Member.

**1.3.11 Closing buy transaction**

Closing buy transaction means a buy transaction which will have the effect of partly or fully offsetting a short position.

**1.3.12 Closing sell transaction**

Closing sell transaction means a sell transaction which will have the effect of partly or fully offsetting a long position.

**1.3.13 Common Pool facility**

Common pool facility means the trading facilities created by the F&O Segment of the Exchange at various places which could be made available for use by the Trading Member in the event of failure of trading facilities in his office or otherwise.

**1.3.14 Constituent**

A constituent means a person, on whose instructions and, on whose account, the Trading Member enters into any contract for the purchase or sale of any security or does any act in relation thereto.

Explanation: For the purpose of these regulations, the term Constituent includes a Participant as defined under the Byelaws of the Exchange unless expressly stated otherwise.

**1.3.15 Contract Value**

Contract Value is the value arrived at by multiplying the strike price of the options contract with the regular/market lot size.

**1.3.16 Contract Month**

Contract month means the month in which the F&O Segment of the Exchange Regulations require a contract to be finally settled.

**1.3.17 Corporate Actions**

Corporate Actions mean and include dividend, bonus, rights shares, issue of shares as a result of stock split, stock consolidations, schemes of mergers / demergers, spin-offs, amalgamations, capital restructuring and such other privileges or events of a similar nature which may be specified by the Relevant Authority from time to time.



**1.3.18 Deal, Transaction, Dealing and Contract**

For the purpose of these Regulations, the terms “deal”, “transaction”, “dealing” and “contract” shall have one and the same meaning unless the context indicates otherwise.

**1.3.19 Derivatives Contract**

A contract which derives its value from the prices, or index of prices, of underlying securities, the trading of which shall be carried out in such manner as provided under these Regulations.

Explanation : For the purpose of this definition, derivative includes a security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security.

**1.3.20 Exercise**

Exercise means the invocation of right, in accordance with and subject to Rules, Byelaws and Regulations of Exchange, by the option holder.

**1.3.21 Exercise Price**

The Exercise Price or strike price is the price per unit of trading at which the option holder has the right either to buy or sell the underlying upon exercise of the option.

**1.3.22 Exercise Style**

Exercise Style of an option refers to the price at which and/or time as to when the option is exercisable by the holder. It may either be an American style option or an European style option or such other exercise style of option as the Relevant Authority may prescribe from time to time.

**1.3.23 Expiration Day**

The day on which the final settlement obligations are determined in a Derivatives Contract.

**1.3.24 Expiration time**

Expiration time is the close of business hours on the expiration day of the option contract or such other time as may be specified by the Relevant Authority from time to time.

**1.3.25 European Style option contract**

European Style option contract means an option contract which may be exercised on the expiration day on or before the expiration time.

**1.3.26 Futures Contract**

Futures Contract means a legally binding agreement to buy or sell the underlying security in the future.

**1.3.27 In the money strike price**

In the money strike price, in case of Put Option, is the strike price of the option contract which is above 'At the money or Near the money' strike price.

In the money strike price, in case of Call Option, is the strike price of the option contract which is below 'At the money or Near the money' strike price.

**1.3.28 Last Trading Day**

Last Trading Day means the day upto and on which a Derivatives Contract is available for trading.

**1.3.29 Long Position**

Long Position in a Derivatives contract means outstanding purchase obligations in respect of a permitted derivatives contract at any point of time.

**1.3.30 Market Type**

Market type refers to the different markets in which trading is permitted on the Trading system.

**1.3.31 Member-Constituent Agreement**

Member-Constituent agreement is an agreement which is executed between a Trading Member and its constituent as per the F&O Segment of the Exchange requirements.

**1.3.32 Members Open Position**

Members open position means the sum of long and short positions of the Member and his constituent in any or all of the Derivatives Contracts outstanding with the Clearing Corporation.

**1.3.33 Notification, Notice Or Communication**

It refers to any such intimation that can be served by the F&O Segment of the Exchange to the Trading Member at ordinary business address and/or ordinary place of residence and/or last known address of the party in any one or more or all of the following ways:-

- (a) delivering it by post
- (b) sending it by registered post
- (c) sending it under certificate of posting
- (d) sending it by express delivery post / courier services
- (e) sending it by telegram
- (f) affixing it on the door at the last known business or residential address
- (g) advertising it at least once in any prominent daily newspaper
- (h) sending a message through the Trading System of NSE
- (i) an electronic mail or fax

**1.3.34 NSE**

NSE means the National Stock Exchange of India Limited. The terms NSE and Exchange are used interchangeably.

**1.3.35 Opening buy transaction**

Opening buy transaction means a buy transaction which will have the effect of creating or increasing a long position.

**1.3.36 Opening sell transaction**

Opening sell transaction means a sell transaction which will have the effect of creating or increasing a short position.

**1.3.37 Open Interest**

Open Interest means the total number of Derivatives Contracts of an underlying security that have not yet been offset and closed by an opposite Derivatives transaction nor fulfilled by delivery of the cash or underlying security or option exercise. For calculation of Open Interest only one side of the Derivatives Contract is counted.

**1.3.38 Option Class**

Option contracts of the same type and style that cover the same underlying constitute an option class.

**1.3.39 Option Contract**

Option Contract is a type of Derivatives Contract which gives the buyer/holder of the contract the right (but not the obligation) to buy/sell the underlying security at a predetermined price within or at end of a specified period. The option contract which gives a right to buy is called a Call Option and the option contract that gives a right to sell is called a Put Option.

**1.3.40 Option Holder**

Option holder is a person who has bought an option contract.

**1.3.41 Option Seller**

Option seller is a person who has sold an option contract.

**1.3.42 Option Writer**

Option Writer means a Trading Member who is permitted by the F&O Segment of the Exchange to write Options Contracts.

**1.3.43 Out of the money strike price**

Out of the money strike price, in case of Put Option, is the strike price of the option contract which is below 'At the money or Near the money' strike price.

Out of the money strike price, in case of Call Option, is the strike price of the option contract which is above 'At the money or Near the money' strike price.

**1.3.44 Outstanding Obligation**

Outstanding Obligation means the obligation which has neither been closed out nor been settled.

**1.3.45 Participant**

Participant refers to an entity as defined under Chapter VI of the Byelaws of the Exchange.

**1.3.46 Permitted Derivatives Contract**

Permitted Derivatives Contract is a derivative contract which is permitted to be traded on the Futures & Options segment of the Exchange.

**1.3.47 Premium**

Premium is the price which the buyer of the option pays to the seller of the option for the rights conveyed by the option contract.

**1.3.48 Regular Lot/Market Lot Size**

Regular Lot/Market Lot Size means the number of units that can be bought or sold in a specified derivatives contract as may be specified by the Relevant Authority of F&O Segment of the Exchange from time to time.

**1.3.49 Risk Disclosure Document**

Risk Disclosure Document refers to the document to be issued to all potential investors at the time of registration for disclosure of the risks inherent to derivatives.

**1.3.50 Series of Options**

Series of Options means all options of the same class having the same exercise price and expiration day.

**1.3.51 Settlement Date**

Settlement Date means the date on which the settlement of outstanding obligations in a permitted Derivatives contract are required to be settled as provided in these Regulations.

**1.3.52 Settlement price**

Settlement price, in respect of Exercise Settlement, is the closing price of the underlying on the day of exercise or such other price as may be decided by the Relevant Authority from time to time.

**1.3.53 Short Position**

Short position in a derivatives contract means outstanding sell obligations in respect of a permitted derivatives contract at any point of time.

**1.3.54 Strike Price Interval**

Strike price interval is the gap between any two successive strike prices which the Relevant Authority may prescribe from time to time.

**1.3.55 Trading cycle**

Trading cycle means the period, as notified by the F&O Segment of the Exchange from time to time, during which the derivatives contract will be available for trading.

**1.3.56 Trading Member**

Trading Member refers to an entity as defined under Chapter V of the Byelaws of National Stock Exchange of India Limited.

**1.3.57 Trade Type**

Trade type is the type of trade as may be permitted by the F&O Segment of the Exchange from time to time for each Market Type.

**1.3.58 Trading System**

Trading System refers to NEAT Trading System of the F&O Segment of the Exchange. NEAT stands for National Exchange for Automated Trading.

**1.3.59 Type of option**

Type of option means the classification of an option as either a put or a call.

**1.3.60 Underlying**

Underlying is one with reference to which derivative contracts are permitted to be traded by the Exchange from time to time.

**1.3.61 Underlying Securities**

Underlying Securities means a security with reference to which a derivatives contract is permitted to be traded on the Futures & Options segment of the Exchange from time to time.

## **2. DEALINGS ON THE F&O SEGMENT OF THE EXCHANGE**

### **2.1 TRADING SYSTEM**

- 2.1.1 The F&O Segment of the Exchange shall provide an Automated Trading facility in all the derivatives contracts admitted for dealings on the F&O segment. Such a system shall hereinafter be referred to as NEAT system.
- 2.1.2 Trading on the F&O Segment of the Exchange shall be allowed only through approved Workstation(s) located at approved locations for the office of a Trading Member. If an approved workstation of a Trading Member is connected by LAN or any other way to other workstations at any place, it shall require an approval of the F&O Segment of the Exchange.
- 2.1.3 Each Trading Member/Participant shall have a unique identification number which shall be provided by the F&O Segment of the Exchange and which shall be used to log on (sign on) to the NEAT system.
- 2.1.4 A Trading Member/Participant shall have a non-exclusive permission to use the Trading system as provided by the F&O Segment of the Exchange in the ordinary course of business as Trading Member/Participant.
- 2.1.5 A Trading Member/Participant shall not have any title, rights or interest with respect to Trading System, its facilities, software and the information provided by the NEAT system.
- 2.1.6 The Trading System
- (a) shall be made available to the Trading Member for trading subject to such terms and conditions as the Relevant Authority may determine from time to time, inter alia, payment of such charges as may be specified from time to time and taking up the clearing membership or having arrangements with Professional Clearing Members of the Clearing Corporation
  - (b) access, shall be withdrawn or restricted by the Relevant Authority for non-compliance with any of these regulations.
- 2.1.7 The Trading Member shall use such equipment and software as specified by the F&O Segment of the Exchange from time to time for the purpose of accessing NEAT Trading System.
- 2.1.8 The F&O Segment of the Exchange shall have the right to inspect equipment and software used for the purpose of accessing NEAT system.
- 2.1.9 The cost of equipment and software supplied by the F&O Segment of the Exchange, installation and maintenance of the equipment shall be borne by the Trading Member.

- 2.1.10 A Trading Member/Participant shall not, permit itself or any other person(s) to:
- (a) use the software provided by the F&O Segment of the Exchange for any purpose other than the purpose as approved and specified by the F&O Segment of the Exchange
  - (b) use the software provided by the F&O Segment of the Exchange on any equipment other than the workstation approved by the F&O Segment of the Exchange
  - (c) copy, alter, modify or make available to any other person the software provided by the F&O Segment of the Exchange
  - (d) use the software in any manner other than the manner as specified by the F&O Segment of the Exchange
  - (e) attempt directly or indirectly to decompile, disassemble or reverse engineer the same.
- 2.1.11 Trading Member shall adopt such security procedures pertaining to connection to the trading system as may be specified by the F&O Segment of the Exchange from time to time.
- 2.1.12 A Trading Member/Participant shall not, by himself or through any other persons on his behalf, publish, supply, show or make available to any other person other than SEBI and other statutory authorities as may be specified from time to time, or reprocess, retransmit, store or use the facilities of the Trading System or the information provided by the Trading System except with the explicit approval of the F&O Segment of the Exchange and in the ordinary course of business to complete the transactions on the F&O Segment of the Exchange.
- 2.1.13 The F&O Segment of the Exchange shall provide its services on a best effort basis. However the F&O Segment of the Exchange shall not be liable for failure of the NEAT system or for any loss, damage, or other costs arising in any way out of:
- (a) Telecom network or system failures including failure of ancillary or associated systems, or fluctuation of power, or other environmental conditions or destruction of any data;
  - (b) Accident, transportation, neglect, misuse, errors, frauds of the Trading Member/Participant or its Authorised Persons or the agents or any third party;
  - (c) Any fault in any attachments or associated equipment (either supplied by the F&O Segment of the Exchange or approved by the F&O Segment of the Exchange) which forms or does not form part of the trading workstation installation;
  - (d) Act of God, natural calamity, fire, flood, war, act of violence, or any other similar occurrence;
  - (e) Any incidental, special or consequential damages.

- 2.1.14 Without prejudice to anything contained in 2.1.13, such failure shall not reduce, alter or affect the liability of the Trading Member/Participant in respect of any trades to which it is a party.
- 2.1.15 The F&O Segment of the Exchange may also permit common pool facility to Trading Members as per the norms as may be specified by it in case of failure of terminal of Trading Member.
- 2.1.16 (a) A Trading Member shall not deal with other Trading Members of the Exchange either for proprietary trading or for trading on behalf of Clients, except with the prior permission of the Exchange granted on the request of such Trading Member.
- (b) The Exchange while giving permission under clause (a) shall consider the reasons stated by the Trading Member and after carrying out due diligence allow such Trading Member to deal with only one Trading Member of the Exchange.
- (c) A Trading Member of the Exchange can deal with only one Member of another stock exchange for proprietary trading after intimating the name of such Member to his parent stock exchange.
- (d) A Trading Member of the Exchange can deal with only one Member of another exchange on behalf of clients after obtaining necessary registration as a sub broker, if allowed, from the Securities and Exchange Board of India.

## **2.2 TRADING MEMBERS AND APPROVED USERS**

- 2.2.1 Trading Members and participants shall be entitled to appoint, with the approval of the F&O Segment of the Exchange,
- (a) Authorised persons subject to such terms and conditions as may be specified by the Relevant Authority from time to time.
- (b) Approved users to operate the Trading Workstation(s) approved by the F&O Segment of the Exchange subject to payment of such approval fee as may be specified by the Relevant Authority from time to time.
- 2.2.2 Authorised Person cannot collect any commission or any amount directly from the Clients he introduces to the trading member, who appointed him. However he may receive a commission or any such amount from the Trading Member who appointed him as provided under Regulation 1.3.6.
- 2.2.3 Approved Users on the F&O Segment should have passed a certification program which has been approved by SEBI.
- 2.2.4 Each Trading Member/Participant shall be permitted to appoint such number of approved users as may be notified from time to time by the F&O Segment of the Exchange.



- 2.2.5 The appointment of Approved users shall be subject to such terms and conditions as the F&O Segment of the Exchange may from time to time specify.
- 2.2.6 Each approved user shall be given a unique identification number through which he shall have access to the NEAT system.
- 2.2.7 An approved user can access the NEAT system through a password and can change such password from time to time.
- 2.2.8 A Trading Member/Participant or its approved users thereof shall maintain complete secrecy of its password.
- 2.2.9 An approved user shall be required to change his password at the end of the password expiry period. The password expiry period shall be specified by the F&O Segment of the Exchange from time to time.
- 2.2.10 (a) Only persons who are registered as Trading Members and Participants in accordance with provisions of the Byelaws, Rules and Regulations of the Exchange or are agents of Trading Members, for whom an application has been made to the Exchange by the Trading Members in accordance with the format specified by the Relevant Authority of the Exchange from time to time, may be approved as Users.
- (b) [ Deleted ].
- (c) No person shall be admitted as an approved user against whom any disciplinary action has been taken by the Exchange or any other Stock Exchange.
- (d) No Trading Member/Participant shall without permission of the F&O Segment of the Exchange take into his employment a former Trading Member or approved user of such Trading Member as an approved user, if such Trading Member or approved user is one against whom any disciplinary action has been taken by the Exchange or any other Stock Exchange.
- (e) No person shall be admitted as an approved user unless he has passed NSE's Certification in Financial Markets (SEBI approved) from the Relevant Authority. The Certification obtained should be valid for the period specified by the F&O Segment of the Exchange from time to time. On the Certification becoming invalid due to any reason, the User Id shall stand terminated. It shall be the responsibility of the approved user to inform the F&O Segment of the Exchange of the expiry of the Certification, if any.
- 2.2.11.1 No person shall be approved as an Authorised Person if
- (a) he is an individual under 18 years of age;

- (b) he is already an authorised person of any other trading member;
- (c) any disciplinary action has been taken against him by the Exchange or any other Stock Exchange;
- (d) he is in the employment of any other trading member;

Provided however, sub-clauses (b), (c) & (d) are applicable to partnership firms and companies seeking approval as Authorised Person.

2.2.11.2 The Exchange shall have a right at any time to withdraw approval granted to an authorised person or suspend approval of an authorised person temporarily. However, the Relevant Authority, at its discretion, may afford an opportunity of being heard to such authorised person before or after such suspension; provided however, where no such opportunity of being heard is afforded, the relevant authority shall record the reasons for the same. Such suspension may be conditional and may be revoked on fulfillment of condition(s) specified, if any, to the satisfaction of the Exchange.

2.2.11.3 Without prejudice to the generality of the above, the F&O Segment of the Exchange may withdraw any approval granted to such authorised person after giving an opportunity, if

- (a) he fails to abide by the Byelaws, Rules, Regulations and the guidelines or circulars thereunder,
- (b) he violates / contravenes any statute or the Rules or Regulations made thereunder.
- (c) on receipt of a request from the Trading Member or the Authorised Person through the Trading Member, subject to compliance with the requirements as may be prescribed by the Exchange.

2.2.11.4 Notwithstanding anything contained in Regulations 2.2.11.2 and 2.2.11.3, an authorised person shall cease to be so, ipso facto, on

- (a) the Trading Member to whom he is attached ceases to be a Trading Member or
- (b) on the expiry / cessation of his contract of employment with such Trading Member.

2.2.12 A Trading Member/Participant desiring to change the User Id or cancel the authority given to its approved user to operate the trading system on its behalf shall intimate the F&O Segment of

the Exchange in writing, in such form and manner as the F&O Segment of the Exchange may specify, immediately on taking such action and obtain confirmation from the F&O Segment of the Exchange of having received such intimation, and of the disabling of the particular approved user by the F&O Segment of the Exchange. However the Trading Member/Participant shall continue to be liable for all the activities reported on the basis of such or previous User Id undertaken up to a period of 24 hours after his obtaining a confirmation as mentioned above from the F&O Segment of the Exchange. The Trading Member shall cancel all his outstanding orders in respect of such approved user.

- 2.2.13 Whenever an approved user of the Trading Member/Participant ceases to act in such or any capacity with the Trading Member then each such Trading Member shall inform the F&O Segment of the Exchange, within 24 hours, the name and other particulars of such approved user.
- 2.2.14 No application shall be made by any Trading Member/Participant under 2.2.10 (a), if such a person for whom such an application is made, is already an approved user for any other Trading Member/Participant.
- 2.2.15 The F&O Segment of the Exchange shall notify different levels of the approved users for each workstation provided. These levels shall define the access to the NEAT system by the approved users and shall include a provision for inquiry only on the terminal, provision for order entry and trading, or such others as may be specified by the F&O Segment of the Exchange.
- 2.2.16 The F&O Segment of the Exchange may change the status of the approved user of the Trading Member from Trader to Inquiry only where circumstances warrant and intimate to such Trading Member any reasons thereof.
- 2.2.17 Trading Member/Participant shall not access the trading system using a different Trading Member/Participant or User Id other than the one allotted to him.
- 2.2.18 An approved user shall not attempt to aid in or access the trading system using the Trading Member code from a location other than the Trading Member's location, unless he has the express prior approval of the Trading Member for whom he is an approved user.
- 2.2.19 A Trading Member/Participant who wants the F&O Segment of the Exchange to reset his password, has to make a request in writing signed by the Trading Member/Participant indicating his Trading Member ID and User Id. A Trading Member/Participant

shall not make a request for resetting the password of any other Trading Member/Participant.

## **2.3 TRADING DAYS**

2.3.1 The F&O Segment of the Exchange shall operate on all days except Saturdays, Sundays and on such Exchange holidays as the F&O Segment of the Exchange may declare from time to time.

2.3.2 The F&O Segment of the Exchange may close the market on days other than or in addition to scheduled holidays or open the market on days originally declared to be holidays under 2.3.1 to be called unscheduled opening or closing of the markets or segments and the decision of the F&O Segment of the Exchange in this matter shall be final and binding.

2.3.3 Other than the regular trading hours, members shall be provided a facility to place orders off-line i.e. outside trading hours. They shall be stored by the system but shall get traded only once the market opens for trading on the following working day.

2.3.4 A trading day shall be typically divided into five periods, as specified by the F&O Segment of the Exchange. The periods would be as follows :-

- (a) Pre - open Period: - This period shall precede the open period and shall primarily serve as an indicator to market participants about the likely market sentiment for that trading day. In this period the members can enter buy and sell orders simultaneously, modify or cancel the orders, but no execution of the orders can take place.
- (b) Opening Period: - In this period the actual matching for derivatives contracts shall commence. All trades pertaining to the pre - open period shall be executed at a single trade price which is the price of the last trade during the pre - open period.
- (c) Open Period: - In this period the orders would be matched according to the price/time priority.
- (d) Market Close and Surcon: - This period shall be the period before batch processing and initiating settlement data generation. No more orders shall be accepted in this period. Inquiries on the activities during the day can be made during the period.
- (e) Post Close and Market shutdown: - This period shall immediately follow the start of settlement data generation. During this period the closing price of the derivatives contract(s) and underlying security shall be calculated.

## **2.4 TRADING HOURS**

2.4.1 The F&O Segment of the Exchange shall announce the regular trading hours for every calendar year in advance.

2.4.2 The F&O Segment of the Exchange may extend, advance or reduce trading hours by notifying Trading Members as and when it deems fit, and necessary in this regard.

## **2.5 TRADING CYCLE**

Trading Cycle for each derivatives contract will have a standard period during which the derivatives contract will be available for trading which shall be notified by the F&O Segment of the Exchange from time to time.

## **2.6 CONTRACT EXPIRATION**

2.6.1 Derivatives contracts will expire on a pre-determined date and time upto which the contract will be available for trading which shall be notified by the F&O Segment of the Exchange in advance.

2.6.2 The contract expiration period shall not exceed twelve months or as may be specified by SEBI from time to time.

## **2.7 TRADING PARAMETERS**

2.7.1 The F&O Segment of the Exchange shall from time to time specify various trading parameters relating to the Trading System.

2.7.2 Every trading member will be required to specify the buy or sell orders as either an open order or a close order.

2.7.3 The F&O Segment of the Exchange shall from time to time specify different order books that shall be maintained on the Trading System and shall specify such various conditions on the order that shall make it eligible to place it in those books.

2.7.4 The F&O Segment of the Exchange shall specify the number of days after which Good Till Cancelled orders shall be cancelled by the system.

2.7.5 The F&O Segment of the Exchange shall specify from time to time the lot size in which orders can be placed for any or all derivatives contracts traded on the F&O Segment of the Exchange.

2.7.6 The F&O Segment of the Exchange shall specify from time to time price steps in which orders shall be entered on the trading system of the F&O Segment of the Exchange.

2.7.7 The F&O Segment of the Exchange shall lay down position limits in respect of each contract from time to time.

2.7.8 The F&O Segment of the Exchange shall specify the price fluctuations for each derivatives contract.

**2.8 MARKET TYPES / TRADE TYPES / TRANSACTION TYPES**

- 2.8.1 The F&O Segment of the Exchange shall permit and notify different kinds of trades in permitted derivatives contracts.
- 2.8.2 The F&O Segment of the Exchange shall specify from time to time different market types, trade types that shall be permitted to Trading Members or Participants for dealings in derivatives contracts.
- 2.8.3 All trades executed on the F&O Segment of the Exchange shall be cleared and settled by the Trading Members either by themselves as Clearing Members or through Professional Clearing Members in accordance with the byelaws, rules and regulations of the specified Clearing Corporation as may be notified by it from time to time.
- 2.8.4 The F&O Segment of the Exchange shall allow from time to time different transaction types.

**2.9 FAILURE OF TRADING MEMBERS' TERMINAL**

In the event of failure of Trading Members'/Participants' workstation and / or the loss of access to the trading system, the F&O Segment of the Exchange may at its discretion undertake on behalf of the Trading Member/Participant (although not guarantee) to carry out the necessary functions which the Trading Member/Participant is eligible on a valid request from such Trading Member/Participant subject to such terms and conditions which the F&O Segment of the Exchange may deem necessary to be imposed. The F&O Segment of the Exchange shall entertain such request only if such request is made in writing in a clear and precise manner by the Trading Member and in a manner as specified by the F&O Segment of the Exchange. The Trading Member/Participant shall be accountable for the functions executed by the F&O Segment of the Exchange on their behalf and shall indemnify the F&O Segment of the Exchange against any losses or costs arising out of the above situation.

### 3. DEALINGS IN DERIVATIVES CONTRACTS

#### 3.1 DEALINGS IN DERIVATIVES CONTRACTS

- 3.1.1 Dealings shall be permitted on the F&O Segment of the Exchange in derivatives contracts based on securities or a set of securities as provided in these Rules, Regulations and Bye-laws of the F&O Segment of the Exchange and for such categories of Trading Members/Participants in such market types, trade types and trading hours as the F&O Segment of the Exchange may specify from time to time.
- 3.1.2 The Relevant Authority may from time to time introduce new contracts at such strike prices ('in the money', 'at the money or near the money' and 'out of the money') for put /call options respectively for every month after the expiry of the previous month contracts.
- 3.1.3 The Relevant Authority may from time to time introduce one or more new contract(s) at new strike prices for both call and put options respectively as and when the prices of the underlying changes beyond pre-defined parameters prescribed by it.
- 3.1.4 The Relevant Authority may from time to time prescribe the criteria for underlying with reference to which the option contracts shall be permitted to be traded on the F&O Segment of the Exchange.
- 3.1.5 All derivatives contract specifications will be notified by the F&O Segment of the Exchange from time to time.
- 3.1.6 Pursuant to the Corporate Actions announced by the issuer of the underlying securities, the Relevant Authority may make such modifications as may be deemed necessary including modifications in the open interest and / or contract specifications in accordance with the Rules, Byelaws and Regulations of the Exchange.
- 3.1.7 The Relevant Authority may from time to time prescribe the exercise style of an option.
- 3.1.8 The Relevant Authority may at any time introduce additional series of option contracts with different exercise prices based on changes in the value of the underlying or such other factors and circumstances including investor interest, market conditions, etc. as may be decided from time to time.
- 3.1.9 The F&O Segment of the Exchange may at its discretion suspend trading in derivatives contracts, inter alia, on the following grounds:
- (a) suspension of trading in the underlying securities ;
  - (b) for protection of the interests of the investors ;
  - (c) for the purpose of maintaining a fair and orderly market.

- 3.1.10 If the Relevant Authority is of the opinion that a particular underlying no longer meets its requirements for options trading or is not eligible for trading or if the Relevant Authority decides to discontinue trading in a particular options series for such reason(s) as it may deem fit, it may stop introducing new options on that underlying and may in such circumstances impose restrictions on transactions that open new positions in options series that have been previously introduced.
- 3.1.11 The Relevant Authority may discontinue trading in a particular option contract if there are no open positions in such a contract.
- 3.1.12 The Relevant Authority may limit the total number of puts or calls on the same underlying that a single investor or group of investors acting in concert may exercise during such time period as may be prescribed by the Relevant Authority from time to time. The Relevant Authority may also limit the maximum number of options on the same side of the market (i.e., calls held plus puts written or puts held plus calls written) with respect to a single underlying that may be carried in the accounts of a single investor or group of investors acting in concert.
- 3.1.13 The F&O Segment of the Exchange may also revoke suspension of trading in derivatives contracts at any time. If trading has been suspended or halted in particular or all derivatives contracts, the F&O Segment of the Exchange may determine in its absolute discretion when trading in the respective derivatives contracts may be resumed.
- 3.1.14 Trading Members may trade on the Trading System in derivatives contracts, either on behalf of their constituents or on their own account unless otherwise specified by the Relevant Authority and trading shall be subject to such conditions as the F&O Segment of the Exchange may specify from time to time.
- For the purpose of this regulation, for transactions entered into on behalf of the director or an employee of the Trading Member or for transactions in which the director or employee has beneficial interest, such director or employee shall be considered as a constituent of the Trading Member and margins shall be collected from each such constituent separately.
- 3.1.14 A. When a Trading Member enters an order on behalf of a Mutual Fund or any of its Schemes, Foreign Institutional Investor or any of its sub-account holders, then such a Trading Member shall at the time of entering orders on behalf of such clients, enter the unique code in respect of such Mutual Fund or its Scheme, Foreign Institutional Investor or any of its sub-accounts in such format and with effect from such date as may be notified by the Exchange.
- 3.1.15 The Trading Member cannot utilise the funds and securities of one constituent for and on behalf of another constituent except on specific authorisation of the constituent whose funds or securities are utilised.
- 3.1.16 The F&O Segment of the Exchange may, at any time restrict conditionally or unconditionally a Trading Member/Participant from dealing in a specified derivatives contract.



- 3.1.17 The Trading Member/Participant shall continue to be liable for all trades executed on the system for orders entered on his behalf. Trading Member/Participant shall be responsible for all the actions of their authorised persons.
- 3.1.18 Without prejudice to regulation 4.5.3 (c) and (d), a Trading Member shall be responsible for all the actions including trades originating through or with the use of all following variables - Trading Member Id and User Id. However if the Trading Member satisfies the F&O Segment of the Exchange that the action(s) and/or trade(s) took place due to fraud or misrepresentation by any other person other than his authorised person(s) and that the action(s) and/or trades did not originate from any of his approved workstations, the F&O Segment of the Exchange may issue such directions as it considers just and reasonable. The directions may include referring the matter to arbitration and/or annulment of trade(s) so effected.
- 3.1.19 When a Trading Member enters an order on behalf of a Constituent, then such a Trading Member shall at the time of entering orders on behalf of such Constituent, enter the Unique Client Code in respect of such Constituent in such format and with effect from such date as may be notified by the Exchange. Every Trading Member shall be responsible to furnish particulars of Unique Client Codes of each of his Constituents to the Exchange in such form, manner, at such intervals and within such time as may be specified by the Exchange from time to time.
- 3.1.20 Every Trading Member shall comply with the SEBI (Central Database of Market Participants) Regulations, 2003. The Trading Member shall ensure that his Constituents comply with the SEBI (Central Database of Market Participants) Regulations, 2003.

## **3.2 POSITION LIMIT**

The Relevant Authority may at any time in its absolute discretion prescribe maximum long and/or short open positions for all or any of the F & O Trading Members and their clients including quantity and/or value for any or all Derivatives Contracts.

## **3.3 ACTION BY THE RELEVANT AUTHORITY**

Upon a F & O trading member/any constituent of a F & O Trading Member failing to comply with any provisions of the Byelaws, Rules and Regulations of the Exchange/Clearing Corporation, requirements of the Exchange/Clearing Corporation including the requirements pertaining to the position limits as imposed by the Relevant Authority from time to time, the Relevant authority may at its discretion, either on its own or on the advice from the Clearing Corporation without notice to the trading member close out open positions to the extent possible or take any such other measure or action, including withdrawal of trading facility, as may be deemed fit from time to time.

**3.4 TRADE OPERATIONS**

- 3.4.1 Trading Members shall ensure that appropriate confirmed order instructions are obtained from the constituents before placement of an order on the NEAT system and shall keep relevant records or documents of the same and of the completion or otherwise of these orders thereof.

Notwithstanding the above, wherever the order instructions are received from clients through the telephone, Members shall mandatorily use telephone recording system to record the instructions and maintain telephone recordings as part of its records.

- 3.4.2 The Trading Member shall make available to his constituent the NEAT system generated order number and copies of the order/trade confirmation slip/modification slip wherever applicable.
- 3.4.3 The Trading Member shall disclose to the F&O Segment of the Exchange at the time of order entry that the order is on his own account or on behalf of constituents and also specify orders for buy or sell as open or close orders.
- 3.4.4 The procedures and conditions for amendment or cancellation of orders would be subject to such conditions and as specified by the F&O Segment of the Exchange from time to time.
- 3.4.5 Trading Members shall be solely responsible for the accuracy of orders entered into the trading system including orders entered on behalf of his constituents.
- 3.4.6 Trades generated on the NEAT system are irrevocable and 'locked in'. The F&O Segment of the Exchange may specify from time to time the markets in which trade cancellation can be effected.
- 3.4.7 Where a trade cancellation is permitted and Trading Member wishes to cancel a trade, it may be done only with the approval of the F&O Segment of the Exchange and in the following manner:
- (a) The Trading Member wishing to cancel the trade shall initiate a cancellation request to the F&O Segment of the Exchange. The counter Trading Member to the trade, too, shall have to put in his cancellation request separately.
  - (b) Where a Trading Member initiates such request the onus shall be on the Trading Member to ensure that he receives a written request from the constituent.
  - (c) Where a trade cancellation request comes to F&O Segment of the Exchange from only one party to trade and is pending with the F&O Segment of the Exchange as a result of it being not confirmed by the counter party to such trade till such time as may be notified by the F&O Segment of the Exchange, such request may be cancelled at the discretion of the F&O Segment of the Exchange.
  - (d) The F&O Segment of the Exchange shall not consider any request for a Trade Cancellation after such period after the market close on a trading day

as may be notified from time to time.

- (e) The F&O Segment of the Exchange shall not give the reasons for rejection or approval of any such trade cancellation request.
- (f) The F&O Segment of the Exchange may cancel a trade suo moto without any request by either of the parties to the trade at any time without giving any reason thereof which cancellation shall be final and binding upon the parties to the trade. In the event of such cancellation, Trading Member shall be entitled to cancel relative contract(s) with his constituents.

3.4.8 The Trading Member shall make available to his constituent the NEAT system generated trade number and copies of the trade cancellation slip wherever applicable.

### **3.5 ORDER MANAGEMENT**

#### **3.5.1 Order Type**

The F&O Segment of the Exchange shall stipulate from time to time, the kinds of orders that a Trading Member can place in the NEAT system which may include Normal order, Special Term order, etc. as also the order attributes that he could place thereon.

#### **3.5.2 Order Attributes**

- (a) The F&O Segment of the Exchange shall from time to time allow various order attributes subject to restrictions as specified in the trading parameters.
- (b) The F&O Segment of the Exchange shall specify the order types and order attributes permitted for different market types.

#### **3.5.3 Modification and Cancellation of Orders**

- (a) A Trading Member shall be permitted to modify or cancel his orders, provided a trade has not already taken place in respect of that order.
- (b) The order can be modified by effecting changes in the order input parameters in the manner and on such conditions as specified by the F&O Segment of the Exchange.
- (c) The modified order shall lose or retain its time priority as per the trading parameter set by the F&O Segment of the Exchange .

#### **3.5.4 Order Validation**

Orders entered into the Trading System by Trading Members shall be subject to various validation requirements as specified by the F&O Segment of the Exchange from time to time including trading parameters, turnover limits, exposure limits and/or other restrictions placed on traded derivatives contracts. Orders that do not meet the validation checks shall not be accepted by the Trading System.

#### **3.5.5 Matching Rules**

- (a) The F&O Segment of the Exchange shall specify from time to time the kinds of order books that shall be maintained on the NEAT system, the order matching algorithms and the matching rules and parameters that shall be followed therein.

- (b) The F&O Segment of the Exchange may modify or change the matching algorithms relevant to any market or order books any time where it is necessary to do so.
- (c) Where the F&O Segment of the Exchange feels that it is in the interests of the market to do so, it may at any time make unavailable any particular order books or forms of matching, in the case of a particular Derivatives contract or Trading Member or to the market as a whole.
- (d) Without prejudice to the generality of the above, the order matching rules would include the following:
  - (i) Orders in the Normal market shall be matched on price-time priority basis.
  - (ii) The best buy order shall match with the best sell order. For trading on price, the best buy order would be the one with the highest price and the best sell order would be the one with the lowest price.

### **3.6 CONTRACT NOTE**

- 3.6.1 Every Trading Member shall issue a contract note to his constituents for trades executed in such format as may be prescribed by the Exchange from time to time with all relevant details as required therein to be filled in, and issued in such manner and within such time as specified by the F&O Segment of the Exchange.
  - 3.6.2 A contract note shall be signed by a Trading Member or his Authorised signatory or constituted Attorney.
  - 3.6.3 Contract note shall be time stamped with the time of receipt of order and the time of execution of order.
  - 3.6.4. The contract notes shall be numbered with unique running serial number commencing from one which shall be reset only at the beginning of every financial year (viz. April to March). In case separate series are maintained in respect of different dealing offices of the Trading Member, then the dealing office name or code shall be pre-fixed to the serial number.
- 3.6 A** Notwithstanding anything contained in Regulation 3.6, a contract note may also be issued by a Trading Member in electronic form, in such format as may be prescribed by the Exchange from time to time, duly authenticated by means of a digital signature as specified in the Information Technology Act, 2000 and the Rules made thereunder.

### **3.7 BROKERAGE**

- 3.7.1 All the orders entered on the Trading System shall be at prices exclusive of brokerage.
- 3.7.2 Trading Members shall charge brokerage at rates not exceeding such scale as the F&O Segment of the Exchange may specify from time to time.

3.7.2 A. The Trading Members shall charge brokerage for option contracts on the premium amount at which the option contract was bought or sold and not on the strike price of the option contract.

3.7.3 A Trading Member shall charge brokerage separately to their constituents and this shall be indicated separately from the price, in the contract note.

### **3.8 DEPOSIT REQUIREMENTS**

3.8.1. Trading Member shall make available such deposit as may be specified from time to time with the F&O segment of the Exchange within such time as may be notified.

3.8.2 The F&O Segment of the Exchange shall specify from time to time such categories of securities that would be eligible for such a deposit as also the method of valuation and amount of securities that would be required to be so deposited.

3.8.3 The trading member shall be required to deposit, such deposits either in the form of cash, deposit receipts, guarantee of banks approved by the Relevant Authority or securities approved by it or such other mode as may be approved or subject to such terms and conditions as the Relevant Authority may impose from time to time.

3.8.4 The procedure for refund of deposit will be such as notified by the F&O Segment of the Exchange from time to time.

### **3.9 MARGIN REQUIREMENTS**

3.9.1 Subject to the provisions as contained in the Exchange Bye-laws, Clearing Corporation Bye-laws and such other regulations as may be in force, every Trading Member/Participant shall in respect of trades in which he is a party, deposit a margin with F&O Segment of the Exchange /Clearing Corporation/Clearing Member, in the manner and to the extent specified by the F&O Segment of the Exchange /Clearing Corporation. Whenever a margin is payable by a Participant, it shall pay such margins directly to the Clearing Member, unless otherwise directed by the F&O Segment of the Exchange /Clearing Corporation.

3.9.2 The F&O Segment of the Exchange / Clearing Corporation shall specify from time to time derivatives contracts, the settlement periods and trade types for which margin would be attracted.

3.9.3 The F&O Segment of the Exchange/Clearing Corporation/Clearing Member shall levy initial margin and such other margins on derivatives contract of such amounts and in such manner as may be specified from time to time by the Relevant Authority.

- 3.9.4 The margin shall be deposited with the F&O Segment of the Exchange /Clearing Corporation within such time as may be notified by the F&O Segment of the Exchange / Clearing Corporation from time to time.
- 3.9.5 The F&O Segment of the Exchange /Clearing Corporation shall specify from time to time such categories of securities that would be eligible for a margin deposit as also the method of valuation and amount of securities that would be required to be so deposited against the margin amount.
- 3.9.6 The procedure for refund/adjustment of margins shall be such as may be notified by the F&O Segment of the Exchange/Clearing Corporation from time to time.
- 3.9.7 The F&O Segment of the Exchange / Clearing Corporation shall from time to time, impose upon any particular Trading Member/Participant or category of Trading Member/Participant any special or other margin requirement.

### **3.10 MARGIN FROM THE CONSTITUENTS**

- (a) The Trading Members must demand from its constituents the Margin Deposit which the member has to provide under these Trading Regulations in respect of the business done by the Members for such constituents.

The Trading Members shall buy and/or sell derivatives contracts on behalf of the constituent only on the receipt of margin of minimum such percentage as the Relevant Authority may decide from time to time, on the price of the derivatives contracts proposed to be purchased, unless the constituent already has an equivalent credit with the Trading Member. The Trading member may collect higher margins from constituents, as he deems fit.

The Trading Member shall obtain a written undertaking from the constituents that the latter shall when called upon to do so forthwith from time to time provide a Margin Deposit and/or furnish additional Margin as required under these Rules and Regulations in respect of the business done for the constituent by and/or as agreed upon by constituent with the Trading Member concerned.

The Trading Member shall demand from his constituents the amounts arising in respect of daily settlement in accordance with the Clearing Corporation Regulations for business done by the Members on behalf of such constituents or such higher amounts, as the Trading Member deems fit. The Trading Member may, if so desire, for administrative convenience maintain the daily settlement margin balance upto a pre-agreed balance level to avoid collecting and paying daily settlement amount on a daily basis, which may be referred to as maintenance margin.

The trading member may keep the unutilised margin deposits of its Constituents in bank deposits and pay interest accrued thereon to its Constituents or utilise the same as per the instructions of such Constituents.

**(b) Constituent(s) in default**

In case of non-payment of daily settlement by the constituents within the next trading day, the Trading Member shall be at liberty to close out transactions by selling or buying the derivatives contracts, as the case may be, unless the constituent already has an equivalent credit with the Trading Member. The loss incurred in this regard, if any, shall be met from the margin money of the constituent.

In case of open purchase position undertaken on behalf of constituents, the Trading Members shall be at liberty to close out transactions by selling derivatives contracts, in case the constituent fails to meet the obligations in respect of the open position within next trading day for the execution of the full contract or within next trading day of the contract note having been delivered, unless the constituent already has an equivalent credit with the Trading Member. The loss incurred in this regard, if any, shall be met from the margin money of the constituent.

In case of open sale position undertaken on behalf of the constituents, the Trading Member shall be at liberty to close out transactions by effecting purchases of derivatives contracts if the constituent fails to meet the obligation in respect of the open position within next trading day of the transaction having been executed on the F&O Segment of the Exchange for the concerned settlement period. Loss on the transaction, if any, shall be deductible from the margin money of the constituent.

**3.11 The Relevant Authority may from time to time prescribe -**

- (a) the mode, method or manner in which the premium shall be collected by the trading member from the constituent;
- (b) the mode, method or manner in which the margins shall be collected by the trading member from the constituent;
- (c) the manner or form in which and time within which the constituent shall give exercise notice to the trading member;
- (d) the manner or form in which and time within which the trading member shall assign exercise notice to its constituents account; and
- (e) the mode, method of exercise, for different option contracts.

**3.12 COLLECTION OF SECURITIES TRANSACTION TAX**

Every Trading Member shall remit to the Exchange the Securities Transaction Tax (STT), in respect of taxable securities transactions entered into by him on the Exchange either on his behalf or on behalf of his Constituents in accordance with the procedures prescribed by the Relevant Authority from time to time for the calculation and collection of such tax. Any Trading Member who fails to make the payment in accordance with the

procedures prescribed by the Relevant Authority from time to time would be liable for such consequences of non-payment including but not limited to withdrawal of trading facility, appropriation from the monies of the Trading Member, withholding of pay-outs, etc. as may be prescribed from time to time.

**3.13** The trading members shall -

- (i) collect copies of Permanent Account Number (PAN) cards issued to their existing as well as new clients by the Income-tax Department and maintain the same in their record after verifying with the original;
- (ii) cross check the aforesaid details collected from their clients with the details on the website of the Income tax Department; and
- (iii) upload the details of PAN so collected to the Exchanges as part of unique client code.



## 4. CONDUCT OF BUSINESS BY TRADING MEMBERS

### 4.1 OFFICE RELATED PROCEDURE

- 4.1.1 No office of a Trading Member shall be used for trading on the NSE without prior approval of the F&O Segment of the Exchange .
- 4.1.2 Each office, department for trading on the NSE, shall be under the supervision and control of the Trading Member establishing it and of the personnel delegated such authority and responsibility in this regard.
- 4.1.3 Every Trading Member shall ensure that all persons acting in his behalf on the Trading System shall subscribe at all times to high standards of professional expertise and integrity.
- 4.1.4 Each Trading Member shall at all times maintain such infrastructure, staff, communication facilities and records so as to be able to service his constituents satisfactorily and as per the requirements enumerated in the SEBI Act, 1992 and Regulations framed thereunder, Securities Contracts (Regulation) Act, 1956 and/or Rules thereunder, Exchange Bye-laws, Rules and Regulations, or any other relevant act(s) in force for that time being.
- 4.1.5 Where the F&O Segment of the Exchange feels it necessary, in the public interest to do so, it may at its own instance or on receiving a complaint from another Trading Member or constituent, seek explanation from the Trading Member regarding the level of service or professional conduct of the Trading Member or any of his staff where such service or conduct has been found unsatisfactory or contrary to principles enumerated in the Exchange Bye-laws, Rules and Regulations, or notifications, directions or circulars issued thereunder.

### 4.2 SUPERVISION

#### 4.2.1 Procedures to be followed

- (a) Each Trading Member shall establish, maintain, and enforce procedures to supervise its business and to supervise the activities of its employees that are reasonably designed to achieve compliance with the NSE Bye-laws, Rules and Regulations and any notifications, directions, etc. issued thereunder as well as the relevant statutory Acts. Such procedures to supervise its business and to supervise the activities of its employees shall be in compliance with the manual of supervisory procedure, if any, provided by the F&O Segment of the Exchange
- (b) The Trading Member shall maintain an internal record of the names of all persons who are designated as supervisory personnel and the dates for which such designation is or was effective. Such record shall be preserved by the Trading Member for a period of not less than three years.

- (c) 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 Trading Member may wish to delegate to such person, and make available a copy of such power of attorney to the F&O Segment of the Exchange before such person transacts any business on the F&O Segment of the Exchange.
- (d) A Trading Member shall maintain such records and make available for inspection by any person authorised in this behalf by the F&O Segment of the Exchange, the information related to such Trading Member's financial condition as specified by the F&O Segment of the Exchange for this purpose.
- (e) The Trading Member shall pay such fees, charges and other sum as the F&O Segment of the Exchange may notify from time to time, in such time and manner as required by the F&O Segment of the Exchange.
- (f) The Trading Member must inform the F&O Segment of the Exchange of any change in the status and constitution, operation and activities of the Trading Member.

#### **4.2.2 Internal Inspections**

Each Trading Member shall conduct a review, at least annually, of the business in which it engages, which shall be reasonably designed to assist in detecting and preventing violations of and achieving compliance with SEBI Act, 1992 and Regulations framed thereunder, Securities Contracts (Regulation) Act, 1956 and / or Rules thereunder and Exchange Bye Laws, Rules and Regulations.

#### **4.2.3 Written Approval**

Each 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 of its employees pertaining to the solicitation or execution of any transaction.

#### **4.2.4 Qualifications Investigated**

Each Trading Member shall have the responsibility and duty to ascertain the good character, business repute, qualifications, and experience of any person prior to making such certification in the application for registration of such person, with the F&O Segment of the Exchange as Approved user.

### **4.3 RELATION WITH CONSTITUENTS**

- 4.3.1 Every Trading Member shall enter into an agreement with each of his constituents, before accepting or placing orders on the constituent's behalf. Such agreement, shall include provisions specified by the F&O Segment of the Exchange in this behalf and shall be in such format as may be prescribed by the F&O Segment of the Exchange from time to time. The term constituent herein shall not include a Participant. The F&O Segment of the Exchange may categorise constituents into such types as may be necessary for the above purpose and specify the clauses to be included in agreements to be entered into by the

- Trading Member depending on the category of such constituent. However the Trading Member's responsibility shall not in any way be reduced due to non-execution of agreement with the constituent.
- 4.3.2 When establishing a relationship with a new constituent, Trading Members must take reasonable steps to assess the background, genuineness, beneficial identity, financial soundness of such person, and his investment objectives by obtaining from the new constituent a CONSTITUENT REGISTRATION FORM which shall be in such format as may be prescribed by the F&O Segment of the Exchange from time to time. The Trading Member shall also obtain from all constituents other than individual constituent an approved copy of the board resolution permitting trading in derivatives.
- 4.3.2A Prior to registering Constituents, every Trading Member is required to identify his Constituents and to ensure 'in-person' verification of the Constituents as per guidelines as may be prescribed by the Exchange from time to time.
- 4.3.2 B The trading members shall give, free of charge, a copy of all the documents executed by his Constituent with him within such time, from the date of such execution, as may be prescribed by the Exchange from time to time and shall obtain Constituent's acknowledgement on receipt of the same.
- 4.3.3 Trading Member shall make the constituent aware of trading segment to which Trading Member is admitted, particulars of SEBI registration number, employee primarily responsible for the constituents 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 constituent's liability thereon by issuing to the constituent a copy of the model RISK DISCLOSURE DOCUMENT which shall be in such format as may be prescribed by the F&O Segment of the Exchange from time to time. The Trading Member shall furnish a copy of the Risk Disclosure Document to all his clients.
- 4.3.4 The Trading Member shall provide extracts of relevant provisions governing the rights and obligations of constituents as constituents of Trading Members (including Participants as specified in the Bye-laws, Rules and Regulations), relevant manuals, notifications, circulars any additions or amendments thereto etc. of the F&O Segment of the Exchange, or of any regulatory authority, to the extent it governs the relationship between Trading Members and constituents, to the constituents at no extra cost.
- 4.3.5 The Trading Member shall also bring to the notice of his constituents, including Participants any indictments, penalties, etc. imposed on him by the F&O Segment of the Exchange or any other regulatory authority.
- 4.3.6 Recommendations to the Trading Member:

- (a) A Trading Member shall make adequate disclosures of relevant material information in his dealings with his constituents.
- (b) No Trading Member or person associated with the Trading Member shall guarantee a constituent against a loss in any transactions effected by the Trading Member for such constituent.

**4.4 GUIDELINES GOVERNING RELATIONSHIP BETWEEN TRADING MEMBER AND CONSTITUENT**

- 4.4.1 The Trading Member shall not recommend to the constituent a sale or purchase of derivatives contracts traded on the Trading System, unless he has reasonable grounds to believe that such recommendation is suitable for the constituent on the basis of facts, if any, disclosed by the constituent, whether in writing or orally, regarding the objectives, constituent's holdings of derivatives contracts & underlying securities, financial soundness and investment.
- 4.4.2 The Trading Member shall make adequate disclosures of relevant material information in his dealing with his constituent including the current best price of trade and trade or order quantities on the Trading System, as also any allocation policy inter se constituents, any relevant announcement from the F&O Segment of the Exchange relating to margin, trading restrictions as to price, quantity or where the Trading Member is the counter party to a trade executed on the NEAT system with the constituent.
- 4.4.3 Where the Trading Member manages a discretionary account for or on behalf of the constituent, he should abide by the Securities and Exchange Board of India (Portfolio Managers) Rules and Regulations, 1993.
- 4.4.4 The Trading Member shall not furnish any false or misleading information or advice with a view to inducing the constituent to do business in particular derivatives contracts and which shall enable the Trading Member to earn a gain thereby.
- 4.4.5 The Trading Member shall explain the NEAT Trading System and order matching process to the constituent before accepting any orders from him.
- 4.4.5 A Trading Members shall inform their Constituents whether they do client based trading or Pro-account trading. Trading Members shall disclose the aforesaid information-
  - (i) to their existing Constituents within such period as specified by the Exchange;
  - (ii) to their new Constituents upfront at the time of entering into Member-Client Agreement;
  - (iii) to their Constituents before carrying out any Pro-account trading, in case they presently do not do Pro-account trading, but choose to do so at a later date.

- 4.4.6 Where the Constituent requires an order to be placed or any of his orders to be modified after the order has entered the system but has not been traded, the Trading Member may, if it so desires, obtain order placement / modification details in writing from the Constituent. The Trading Member shall accordingly provide the Constituent with the relevant order confirmation / modification slip or copy thereof, forthwith, if so required by the Constituent.
- 4.4.7 Where the Constituent requires any of his orders to be cancelled after the order has been entered in the system but has not been executed, the Trading Member may, if it so desires, obtain the order cancellation details in writing from the Constituent. The Trading Member shall accordingly provide the Constituent with the relevant order cancellation slip, forthwith, if so required by the Constituent.
- 4.4.8 The Trading Member may, if it so desires, obtain in writing, the delivery and payment requirement in any instructions of an order that it receives from the Constituents. Where a Trading Member receives a request for order modification or order cancellation from the Constituents, it shall duly bring it to their notice that if the order results in a trade in the meantime, the requests for modification or cancellation cannot be executed.
- 4.4.9 The Trading Member shall not accumulate or withhold constituent's order/unexecuted balances for derivatives contracts. The Trading Member shall place forthwith all orders.
- 4.4.10 The Trading Member shall act promptly in accordance with the instructions provided by the constituent unless he has a discretion as to the timing relating to entering and/or execution of the order, in which case he must exercise his judgment as to the best moment for entering that order in the system.
- 4.4.11 The Trading Member shall provide Constituent with a copy of the trade confirmation slip as generated on the trading system, forthwith on execution of the trade, if so desired by the Constituent; and with a contract note for the trade executed.
- 4.4.12 In addition to the guidelines issued by SEBI relating to the regulation of transactions between constituents and brokers, member shall at all times keep the money of the constituent in a separate bank account. The bank will not be able to access the constituents account to meet the brokers defaults in anyway unless specified by the constituent.
- 4.4.13 Where the member is required to pay margin money on transaction executed on behalf of the constituent, he shall collect the same from the constituent in such form and manner as may be specified by NSEIL.
- 4.4.14 Where the constituent requires an executed trade to be cancelled, the Trading Member shall obtain a written request for trade cancellation from the constituent. In all instances of trade cancellation requests, the member shall explain to the

constituent that the right to approve or reject such trade cancellation requests rests with the F&O Segment of the Exchange .

- 4.4.15 The Trading Member shall make pay out of funds or delivery of securities, as the case may be, to the Constituent within one (1) working day of receipt of the payout from the Exchange.

Provided, however, that in case the Constituent has given specific authorisation for retaining funds and securities, payout of such funds or delivery of such securities, as the case may be, may not be made within one working day from the receipt of payout from the Exchange, subject to such terms and conditions as may be prescribed by the Exchange from time to time.

- 4.4.16 (a) Trading Member shall not make payment in cash to the Constituents and shall not receive payment in cash from the Constituents, towards the payment of Mark to market settlement for futures contracts.

(b) The trading member shall make or receive all payments to/from the Constituents by account payee crossed cheques/ Demand Drafts or by way of direct credit into the respective bank account through Electronic Fund Transfer Facility or any other mode allowed by the Reserve Bank of India.

(c) In respect of their transactions, the trading member shall accept cheques/Demand Drafts drawn only by the Constituents and issue cheques/Demand Drafts in favour of the Constituents only;

- 4.4.17 Where a Power of Attorney is executed by the Constituent in favour of the trading member, authorising the trading member to operate Constituent's bank and demat accounts, such Power of Attorney shall be subject to such terms and conditions as may be prescribed by the Exchange from time to time.

## **4.5 CODE OF CONDUCT FOR TRADING MEMBERS**

### **4.5.1 Adherence to SEBI Code of Conduct**

The Trading Member shall at all times subscribe to the Code of Conduct as specified by the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992.

### **4.5.2 General Principles**

- (a) A Trading Member shall make adequate disclosures of relevant material information in his dealings with his clients.

- (b) No Trading Member or person associated with the Trading Member shall guarantee a client against a loss in any transactions effected by the Trading Member for such client.
- (c) Professionalism: A Trading Member in the conduct of his business, shall observe high standards of commercial honour of just and equitable principles of trade.
- (d) Adherence to Trading Practices: Trading Members shall adhere to the Rules, Regulations and Bye - laws of the Exchange and shall comply with such operational parameters, rulings, notices, guidelines and instructions of the Relevant Authority as may be applicable from time to time.
- (e) Honesty and Fairness: In conducting his business activities, a Trading Member shall act honestly and fairly, in the best interests of his constituents.
- (f) Capabilities: A Trading Member shall have and employ effectively the resources and procedures which are needed for the proper performance of his business activities.

#### **4.5.3 Trading Principles**

- (a) Trading Members/Participants shall ensure that the fiduciary and other obligations imposed on them and their staff by the various statutory acts, rules and regulations are complied with.
- (b) Trading Members/Participants shall ensure –
  - (i) that any employee who commits the Trading Members or Participants to a transaction has the necessary authority to do so .
  - (ii) that employees are adequately trained in operating in the relevant market segment in which they deal, are aware of their own, and their organization's responsibilities as well as the relevant statutory acts governing the Trading Member, the Rules, Regulations and Bye-laws of the F&O segment of the Exchange including any additions or amendments thereof.
- (c) Without prejudice to regulation 3.1.17 and 3.1.18, a Trading Member shall be responsible for all the actions including trades originating through or with the use of all following variables - Trading Member Id and User Id, at that point of time. However if the Trading Member satisfies the F&O Segment of the Exchange that the action(s) and/or trade(s) took place due to fraud or misrepresentation by any other person other than his authorised person(s) and that the action(s) and/or trades did not originate from any of his approved workstations, the F&O Segment of the Exchange may issue such directions as it considers just and reasonable. The directions may include referring the matter to arbitration and/or annulment of trade(s) so effected.

- (d) When entering into transactions on behalf of constituents, the Trading Members shall ensure that they abide by the Code of Conduct and regulations as enumerated in the current chapter of these regulations.
- (e) No Trading Member or person associated with a Trading Member shall make improper use of constituent's securities/positions in derivatives contracts or funds.
- (f) No Trading Member shall publish and circulate or cause to be published or circulated, any notice, circular, advertisement, newspaper article, investment service or communication of any kind which purports to report any transaction as a purchase or sale of any derivatives contracts unless such Trading Member can establish if called for, that such transaction was a bonafide purchase or sale of such contract; or which purports to quote the purchase/sale price for any derivatives contract unless such Trading Member can establish if called for that such quotation represents a bonafide order of such derivatives contract.
- (g) When entering into or arranging transactions, Trading Members must ensure that at all times great care is taken not to misrepresent in any way, the nature of transaction.
- (h) No Trading Member shall exercise any discretionary power in a constituent's account unless such constituent has given prior written authorisation to a stated individual or individuals and the account has been accepted by the Trading Member, as evidenced in writing by the Trading Member.
- (i) A Trading Member shall not act as a principal or enter into any agreement or arrangement with a constituent or constituent's agents, employees or any other person connected to the constituent, employee or agency, whereby special or unusual rates are given with an intent to give special or unusual advantage to such constituent for the purpose of securing his business.
- (j) The Trading Member shall not disclose the name and beneficial identity of a constituent to any person except to the F&O Segment of the Exchange as and when required by it.
- (k) The facility of placing orders on 'Pro-account' through trading terminals shall be availed by the Trading Members only at one location of the Trading Members as specified / required by the Trading Members. Any trading terminal located at a place other than the above location shall have a facility to place order only for and on behalf of a Constituent by entering client code details as required/specified by the Exchange / SEBI. In case any Trading Member requires the facility of using 'Pro-account' through trading terminals from more than one location, such Trading Member shall request the Exchange stating the reason for using the 'Pro-account' at multiple locations and the Exchange may, on a case to case basis after due diligence, consider extending the facility of allowing use of 'Pro-account' from more than one location.



#### 4.5.4 General Guidelines

A Trading Member shall desist from the following trading practices while conducting business on the F&O Segment of the Exchange .

(a) **Shielding or Assisting:**

No Trading Member shall shield or assist or omit to report any Trading Member whom he has known to have committed a breach or evasion of any Rules, Bye-Laws or Regulations of the F&O Segment of the Exchange or of any resolution, order, notice or direction thereunder of the Governing Board or the Managing Director or of any committee or officer of the F&O Segment of the Exchange authorised in that behalf.

(b) **Suspended derivatives contracts**

Except with the permission of the F&O Segment of the Exchange , business shall not be transacted by the Trading Member in derivatives contracts which have been suspended from official quotation.

(c) **Misleading Transactions**

A Trading Member shall not -

- (i) make bids and/or offers for derivatives contracts with an intention of creating a false or misleading appearance with respect to the market for, or the price of any derivatives contracts or;
- (ii) make a transaction or give an order for the purchase or sale of derivatives contracts, 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 contracts.

(d) **Use of information obtained in Fiduciary Capacity**

A Trading 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 contracts, 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 issuer, if any.

#### 4.6 FRAUDULENT AND UNFAIR TRADING PRACTICES

**4.6.1** No Trading member shall buy, sell or deal in securities/derivatives contracts in a fraudulent manner or indulge in any unfair trade practices including market manipulation.

**4.6.2** Without prejudice to generality of the provisions contained in the above clause, no person shall indulge in market manipulation, namely :

1. (a) effect, take part in or enter into either directly or indirectly transactions in securities / derivatives contracts, which are likely to have the effect of artificially raising or depressing or stabilising the price of securities/ derivatives contracts;

- (b) indulge in any act, which is calculated to create a false or misleading appearance of trading on the securities / derivatives market or, results in reflection of prices of securities / derivatives contracts based on transactions, which are not genuine trade transactions ; or
  - (c) purchase or sell any securities not intended to effect transfer of beneficial ownership but as a device to maintain, inflate, depress, or cause fluctuations in the market price of securities/derivatives contracts; or
  - (d) pay, offer or agree to pay or offer, directly or indirectly, to any person to purchase or sell any security / contract in securities with the sole object to maintain, inflate, depress, or cause fluctuations in the market price of securities / derivatives contracts.
2. No person shall make a statement, or disseminate information which is misleading in a material particular which is likely to induce the sale of securities /derivatives contracts by other persons or is likely to have the effect of maintaining or stabilising the market price of securities /derivative contracts if, when he makes or disseminates the information -
- (a) he does not care whether the statement or information is true or false;
  - (b) he knows or ought to reasonably know that the statement or information is false or misleading in material.
3. No trading member shall
- (a) engage in any act, practice in course of his business, which would operate as a fraud or deceit upon any person in connection with the purchase or sale of any securities or derivatives contracts; or
  - (b) buy, sell or deal in securities or derivatives contracts on his own behalf or on behalf of a person associated with him pending the execution of the order of his constituent or of his company or director for the same security or in derivatives contracts in securities; or
  - (c) delay the transfer of securities or derivatives contracts in the name of the transferee which results in the price of the securities or derivatives contracts in securities increasing; or
  - (d) indulge in falsification of his books, accounts and records for the purpose of market manipulation; or
  - (e) when acting as an agent execute a transaction with a constituent at a price other than the price at which it was executed on the F&O Segment of the Exchange or other than the price it was off-set against the transaction of another constituent; or
  - (f) either take opposite position to an order of a constituent or shall execute opposite orders which he is holding in respect of two constituents except in the manner laid down by the F&O Segment of the Exchange .

## 5. ARBITRATION

### 5.1 DEFINITIONS

- (a) 'Act' shall mean the Arbitration and Conciliation Act, 1996 and includes any statutory modification, replacement or re-enactment thereof, for the time being in force.
- (b) 'arbitrator' means a sole arbitrator or a panel of arbitrators.
- (c) 'Appellate Arbitrator' shall mean a panel of arbitrators who hear the appeal filed against the arbitral award.
- (d) 'arbitral award' shall mean an award passed by the Arbitrator.
- (e) 'Appellate Arbitral Award' shall mean an award passed by the Appellate Arbitrator
- (f) 'Applicant' means the person who makes the application for initiating arbitral proceedings.
- (g) 'Respondent' means the person against whom the Applicant lodges an arbitration application, whether or not there is a claim against such person.

### 5.2 SEAT OF ARBITRATION

- (a) The Relevant Authority may provide for different seats of arbitration for different regions of the country either generally or specifically and in such an event the seat of arbitration shall be the place so provided by the Relevant Authority.
- (b) The premises/location where arbitration shall take place shall be such place as may be identified by the Exchange from time to time and intimated to the arbitrator and the parties to the dispute accordingly.

### 5.3 JURISDICTION OF COURTS

For the purpose of Byelaw 17 of Chapter XI of the Byelaws of the Exchange, the application under section 34 of the Act, if any, against the decision of the Appellate Arbitrator shall be filed in the competent court nearest to such regional centre where the Appellate Arbitral proceedings have been conducted.

### 5.4 REFERENCE OF THE CLAIM, DIFFERENCE OR DISPUTE

Save as otherwise specified by the Relevant Authority, if the value of the claim, difference or dispute is more than Rupees Twenty Five Lakhs on the date of application, then such claim, difference or dispute shall be referred to a panel of three arbitrators and if the value of the claim, difference or dispute is upto Rupees Twenty Five Lakhs, then the same shall be referred to a sole arbitrator;

Provided further that in any claim difference or dispute which is less than Rupees Twenty Five Lakhs, if there is a counter claim in excess of Rupees Twenty Five

Lakhs, then the arbitration panel shall be expanded to three arbitrators from a sole arbitrator.

## **5.5 CRITERIA AND PROCEDURE FOR SELECTION OF PERSONS ELIGIBLE TO ACT AS ARBITRATORS**

For facilitating arbitration, the Relevant Authority from time to time may specify as the following:

- (i) Eligibility criteria for arbitrators
- (ii) The declarations/disclosures/ undertakings to be given by arbitrators
- (iii) Code of conduct for arbitrators.
- (iv) List of arbitrators for each Regional Arbitration Centre.

## **5.6 PROCEDURE FOR APPOINTMENT OF ARBITRATORS**

- (a) The Applicant shall submit the arbitration application to the Exchange in Form No.I/IA alongwith preferred choice of arbitrators in the descending order of preference.
- (b) Form No.I/IA received from the Applicant shall be forwarded by the Exchange to the Respondent.
- (c) The Respondent may choose his preference from the list submitted by the Applicant or submit his preferred choice of arbitrators in the descending order of preference in Form No.II /IIA within seven days of the receipt of Form No. I/IA from the Exchange.
- (d) On receipt of Form No. I/IA and II/IIA, the Relevant Authority shall identify and appoint an arbitrator(s) in the first instance from amongst the preferred choices indicated by the Constituent.
- (e) If the Constituent fails to provide the preferred choice of arbitrators, then the Relevant Authority shall identify and appoint an arbitrator(s) from amongst the preferred choices indicated by the other party to the arbitration application.
- (f) If both the parties to the arbitration fail to provide the preferred choice of arbitrators, then the Relevant Authority shall identify and appoint an arbitrator(s) from amongst the list of arbitrators.
- (g) In the case of arbitration matters which are to be decided by a panel of arbitrators, the appointed arbitrators shall select from amongst themselves an arbitrator who shall act as a presiding arbitrator. In case of failure or lack of consensus among the panel to select a presiding arbitrator, the Relevant Authority shall select the presiding arbitrator.

- (h) The process of appointment of arbitrator shall be completed within 30 days from the date of receipt of application from the Applicant, subject to further period of extension by the Relevant Authority in case of hardships for the reasons to be recorded in writing. For the purpose of this clause, where deficiency in the application is found, the date of receipt of application shall be date on which the rectified application is received by the Exchange.

## 5.7 VACANCY IN THE OFFICE OF THE ARBITRATOR

If the office of the sole arbitrator or any one or more of the arbitrators in the panel of arbitrators falls vacant after the appointment thereto, the Relevant Authority shall appoint the arbitrator preferably from the list of arbitrators in Form No.I/IA and II/IA already submitted by the Applicant and by the Respondent.

## 5.8 COST OF ARBITRATION

- (a) The parties to the claim, difference or dispute shall bear cost of arbitration. For this purpose, both the parties to arbitration shall make a deposit with the Exchange along with Form No. I/IA or Form No. II/IA as the case may be, for defraying the costs that may be incurred for conducting the arbitration proceeding provided when there is failure, neglect or refusal by Respondent, being a constituent, to make a deposit accordingly, the Applicant shall be responsible for making such deposit. The Exchange shall have the right to recover the deposit from the trading member from the moneys due to it if the trading member fails to make the deposit.
- (b) The amount of deposit, which has to be deposited is determined by the amount of the claim initially and thereafter determined based on a higher counter claim, if any, and is as specified below. The deposits (exclusive of statutory dues – stamp duty, service tax, etc.) shall not exceed the amount as indicated under

Amount of Claim /Counter Claim, whichever is higher (Rs.)	If claim is filed within six months	If claim is filed after six months
≤ 10,00,000	1.3% subject to a minimum of Rs.10,000/-	3.9% subject to a minimum of Rs.30,000/-
> 10,00,000 - ≤ 25,00,000	Rs. 13,000 plus 0.3% amount above Rs. 10 lakh	Rs. 39,000 plus 0.9% amount above Rs. 10 lakh
> 25,00,000	Rs. 17,500/- plus 0.2 % amount above	Rs. 52,500/- plus 0.6 % amount above

	Rs. 25 lakh subject to maximum of Rs. 30,000/-	Rs. 25 lakh subject to maximum of Rs. 90,000/-
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Six months shall be computed from the end of the quarter during which the disputed transaction(s) were executed/ settled, whichever is relevant for the dispute. The deposits shall be rounded off to nearest to Rs.10/-.

- (c) Notwithstanding anything contained above, if the amount of claim is less than or equal to Rs.20 lakhs, then the cost of arbitration with respect to the Constituent, whether Applicant or Respondent, shall be borne by the Exchange provided the arbitration application has been filed within six months from the end of the quarter during which the disputed transaction(s) were executed/settled.
- (d) In all arbitration applications on issue of the arbitral award, the deposit shall be refunded by the Exchange to the party in whose favor the arbitral award has been passed.
- (e) In all arbitration cases where claim was filed within six months from the date of dispute, the full deposit made by the party against whom the arbitral award has been passed shall be appropriated towards arbitration fees.
- (f) In all arbitration applications where claim was filed after six months from the date of dispute, one-third of the deposit collected from the party against whom the arbitral award has been passed, shall be appropriated towards arbitration fees and balance two-third amount shall be credited to the Investor Protection Fund of the Exchange.

**Explanation :**

The six months period as referred in clauses (b), (c), (e) and (f) shall be computed from the end of the quarter during which the disputed transaction (s) were executed/ settled, whichever is relevant for the dispute, and after excluding:-

- (i) the time taken by the Investors Services Cell of the Exchange (the time taken from the date of receipt of dispute till the decision by the Investor Services Cell) to resolve the dispute , and
- (ii) the time taken by the Trading Member to attempt the resolution of the dispute (the time from the date of receipt of dispute by the Trading Member to the date of receipt of the Trading Member's last communication by the Constituent) or one month from the date of receipt of the dispute by the Trading Member, whichever is earlier.

- (g) With regard to issue of limitation, in all arbitration applications where three years have not yet elapsed from the date of dispute and the parties have not filed for arbitration with the Exchange, the cost of arbitration will be subject to the fee amount as mentioned in this Regulation or where the arbitration application was filed but was rejected solely on the ground of delay in filing within earlier limitation period of six months as prescribed under Bye-law (3) of Chapter XI as was in effect prior to September 1, 2010; and three years have not yet elapsed; the amount of fee already paid would be deducted from the amount of fee mentioned in this Regulation and the balance shall be borne by the parties to the arbitration in the manner specified under this Regulation.

## **5.9 PROCEDURE FOR ARBITRATION**

- (a) The Applicant shall submit to the Exchange application for arbitration in Form No. I/IA, (three copies in case of sole arbitrator and five copies in case of panel of arbitrators) alongwith the following enclosures:
- (i) The Statement of Case (containing all the relevant facts about the dispute and relief sought)
  - (ii) The Statement of Accounts
  - (iii) Copies of Member - Constituent Agreement
  - (iv) Copies of the relevant Contract Notes and Bills
  - (v) A cheque/pay order/demand draft for the deposit payable at the seat of arbitration in favour of National Stock Exchange of India Limited
  - (vi) List of names of the persons eligible to act as arbitrators
- (b) If any deficiency/defect in the application is found, the Exchange shall call upon the Applicant to rectify the deficiency/defect either by return of the arbitration application or otherwise and the Applicant shall rectify the deficiency/defect within 15 days of receipt of intimation from the Exchange. If the Applicant fails to rectify the deficiency/defect within the prescribed period, the Exchange shall return the deficient/defective application to the Applicant in case the arbitration application has not already been returned. However, the Applicant shall have the right to file a revised application which shall be considered as a fresh application for all purposes and dealt with accordingly.
- (c) Upon receipt of Form No. I/IA, the Exchange shall forward a copy of the statement of case and related documents to the Respondent. Upon receiving Form No. I/IA, the Respondent shall submit Form II/IIA to the Exchange, within 7 days from the date of receipt of Form I from the Exchange, three copies in case of sole arbitrator and five copies in case of panel of arbitrators along with the following –

- i. The Statement of Reply (containing all available defences to the claim)
  - ii. The Statement of Accounts
  - iii. Copies of the Member Constituent Agreement,
  - iv. Copies of the relevant Contract Notes and Bills
  - v. Statement of the set-off or counter claim alongwith statements of accounts and copies of relevant contract notes and bills
  - vi. Cheque/pay order/demand draft for the deposit payable at the seat of arbitration in favour of National Stock Exchange of India Limited along with Form No. II/IIA
- (d) Upon receiving Form No.II/IIA from the Respondent(s), the arbitrator shall be appointed as per the procedure prescribed in Regulation 5.6.
- (e) In the event there is more than one Respondent, being legal heirs of a deceased Constituent, then such legal heirs shall authorise one of them to represent the deceased Constituent in the arbitration proceedings including signing of Form II and such other documents as may be required.
- (f) Upon receiving Form No. II/IIA from the Respondent, the Exchange shall forward one copy to the Applicant. The Applicant shall within seven days from the date of receipt of copy of Form II/IIA, submit to the Exchange, a reply to any counterclaim, if any, which may have been raised by the Respondent in its reply to the Applicant. The Exchange shall forward the reply to the Respondent.
- (g) The time period to file any pleading referred to herein may be extended for such further periods as may be decided by the Relevant Authority in consultation with the arbitrator depending on the circumstances of the matter.
- (h) Formats of Form No. I, IA, II, IIA and Form No. III and IIIA, IV and IVA in case of appeals will be as prescribed by the Relevant Authority from time to time.

#### **5.10 REQUIREMENT FOR HEARINGS**

- (a) No hearing shall be required to be given to the parties to the dispute if the value of the claim, difference or dispute is Rs.25,000/- or less. In such a case the arbitrator shall proceed to decide the matter on the basis of documents submitted by both the parties provided however the arbitrator for reasons to be recorded in writing may hear both the parties to the dispute.



- (b) If the value of claim, difference or dispute is more than Rs.25,000/-, the arbitrator shall offer to hear the parties to the dispute unless both parties waive their right for such hearing in writing.

#### **5.11 NOTICE OF HEARING**

Unless otherwise specified, the Exchange shall in consultation with the arbitrator determine the date, the time and place of the first hearing. Notice for the first hearing shall be given at least ten days in advance, unless the parties shall, by their mutual consent, waive the notice. The arbitrator shall determine the date, the time and place of subsequent hearings of which a notice shall be given by the Exchange to the parties concerned.

#### **5.12 ADJOURNMENT OF HEARING**

If any party to the reference wants to make an application for adjournment of hearing by the arbitrator, the party shall make an application in writing giving reasons for seeking adjournment to the Exchange sufficiently in advance to enable the Exchange to forward such request to the arbitrator. The arbitrator at his discretion may grant the adjournment subject to such conditions as deemed fit by him.

**5.12 A** Any person representing the constituent in the arbitral proceedings shall be permitted to do so on production of a power of attorney duly executed and notarised by the Constituent in his favour, provided however in case of a Trading Member, he shall appear in the hearings on his own or through his authorised representative. For the purpose of this Regulation, an authorised representative in case of a Trading Member who/which is

- (a) an individual - an employee or authorised person, as defined in these Regulations, of such Trading Member; or
- (b) a partnership firm - any partner or employee or authorised person, as defined in these Regulations, of such Trading Member; or
- (c) a company - any director or employee or authorised person, as defined in these Regulations, of such Trading Member.

#### **5.13 ARBITRAL AWARD ON AGREED TERMS**

If after the appointment of an arbitrator, the parties settle the dispute, then the arbitrator shall record the settlement in the form of an arbitral award on agreed terms.

### 5.13 A ARBITRAL AWARD UNDER CERTAIN CIRCUMSTANCES

The arbitrator, in case of any arbitration proceedings which is not defended or in his opinion is not effectively defended or if the award is on agreed terms, besides the documents produced by the applicant, shall, for the purpose of passing a fair and proper award, also consider any other document in general, which the arbitrator considers necessary for the purpose of coming to a proper conclusion and in particular the following documents for the purpose of arriving at a decision:

1. Copy of member-constituent agreement
2. Contract notes and bills
3. Statement of accounts given by the trading member to the constituent on periodic basis.
4. Bank statements supported by confirmation from the bank regarding payments/receipts.
5. Transaction cum Holding statements of the demat account(s) of the applicants and respondents with the depository.
6. Unique id upload, if any, from the members to Exchange with regard to the client.
7. Trade log in respect of transactions relating to dispute.

For the purpose of the above, the arbitrator may also seek relevant information from the applicant as well as the Exchange, to the extent available with the Exchange.

### 5.14 MAKING OF ARBITRAL AWARD

- (a) The arbitral award shall be in writing and made in three originals duly dated and signed by the sole arbitrator or in case of a panel of arbitrators by all the three arbitrators.
- (b) The arbitrator shall file all the three original awards with the Exchange, which shall arrange to send one original each to the parties to the dispute and the stamped original award shall be retained by the Exchange.
- (c) The award *inter alia* shall be in such form as may be prescribed by the Relevant Authority from time to time.

### 5.15 INTEREST

- (a) The arbitrator may include in the sum for which the award is made interest at such rate on such sum and for such period as the arbitrator deems reasonable.

- (b) A sum directed to be paid by an award shall, unless the award otherwise directs, carry interest at the rate of eighteen per centum per annum from the date of the award to the date of payment.

**5.16 ARBITRATION FEES AND CHARGES, COSTS, ETC.**

- (a) The fees and expenses payable to arbitrator shall be as determined by the Relevant Authority from time to time.
- (b) The costs, if any, to be awarded to either of the party in addition to the fees and charges that have to be borne by the parties for conducting the arbitration shall be decided by the arbitrator.
- (c) Unless the arbitrator directs otherwise each party shall bear their own expenses of traveling and other incidental expenses incurred.

**5.17 ADMINISTRATIVE ASSISTANCE WHICH MAY BE PROVIDED BY THE EXCHANGE**

The Exchange shall-

- (a) maintain a register of references;
- (b) receive all applications for arbitration and communications addressed by the parties before or during the course of arbitration proceedings or otherwise in relation thereto;
- (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 proceedings or otherwise in relation thereto;
- (e) communicate to the parties all orders and directions of the arbitrator;
- (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) communicate the award on behalf of the arbitrator;
- (h) generally do such things and take all such steps as may be necessary to assist the arbitrator in the execution of their function.

**5.18 MODE OF COMMUNICATION**

- (a) Any communication sent by the Exchange to either of the parties shall be deemed to have been properly delivered or served, even if such communication is returned to the Exchange as unclaimed/refused/undelivered, if the same is sent to the ordinary business address and/or ordinary place of residence and/or last known address of the party, in any one or more of the following ways: -
  - (i) by post,

- (ii) by registered post,
- (iii) under certificate of posting
- (iv) by speed post/courier services,
- (v) by telegram,
- (vi) by affixing it on the door at the last known business or residential address,
- (vii) by oral communication to the party in the presence of a third person,
- (viii) by advertising it in at least one prominent daily newspaper having circulation in the area where the last known business or residential address of Respondent is situated,
- (ix) by sending a message through the Trading System,
- (x) by electronic mail or fax
- (xi) by hand delivery

(b) Any communication sent by either of the parties to the Exchange shall be made in any one or more of the following ways:

- (i) by post (ordinary or registered or speed) or Courier service
- (ii) by telegram
- (iii) by fax
- (iv) by hand delivery

**5.19** The following documents shall be preserved by the Exchange for the time periods as mentioned hereunder:

- (a) The original arbitration award along with acknowledgements shall be preserved permanently.
- (b) In case an appeal for setting aside the award is not filed, then apart from the original award, all the other records pertaining to arbitration shall be preserved for 5 years from the date of award.
- (c) In case an appeal for setting aside the award is filed, then apart from the original award, all the other records pertaining to arbitration shall be preserved for 5 years from the date of final disposal by court.

**5.20** The destruction of records by the Exchange shall be subject to the previous order, in writing of the relevant authority and the details of the destruction shall be entered in a register wherein the brief particulars of the records destroyed along with the certification regarding the date and mode of destruction shall be mentioned. The registry of destruction shall be maintained by the Exchange permanently.

**5.21 APPELLATE ARBITRATION**

- (a) A party filing an appeal before the Appellate Arbitrator shall pay such fees as prescribed by the Relevant Authority from time to time in addition to statutory dues (stamp duty, service tax, etc) along with the appeal.
- (b) The above provisions of Regulations 5.5 to 5.20 shall be applicable to Appellate Arbitration.

## **6. RECORDS, ANNUAL ACCOUNTS & AUDIT**

### **6.1 RECORDS**

- 6.1.1 Every Trading Member shall comply with all relevant statutory Acts, including Securities Contracts (Regulation) Act, 1956 and Rules thereunder of 1957, and Securities Exchange Board of India Act, 1992 and Rules, Regulations and 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.
- 6.1.2 In additions to the requirements as per regulation 6.1.1 above, every Trading Member of the F&O Segment of the Exchange shall comply with the following requirements and such other requirements as the F&O Segment of the Exchange may from time to time notify on this behalf relating to books of accounts, records and documents in respect of his membership and trading on the F&O Segment of the Exchange.
- 6.1.3 Where a Trading Member holds membership of any other recognised stock exchange(s), then such a Trading Member shall maintain a separate books of accounts, records and documents for trades executed on each recognised stock exchange.
- 6.1.4 Every Trading Member of the F&O Segment of the Exchange shall maintain the following records relating to its business for a period of five years:-
- (a) Order confirmation slips, order modification slips as obtained from the trading system of the F&O Segment of the Exchange.
  - (b) Trade confirmation slips and exercise notice records as obtained from the trading system of the F&O Segment of the Exchange .
  - (c) Statements of obligations received from the Clearing Corporation.
  - (d) Record of all statements received from the settling agencies and record of all correspondence with them.
  - (e) Order Book of Constituents 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 Constituent, description and value of derivatives contracts to be bought and sold
    - (v) 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 NEAT order number as per the trading system of the F&O Segment of the Exchange or trading member order number as the case may be.
- (vii) any modification or cancellation thereof including cases when it is cancelled by the system or cancelled 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 trading system of the F&O Segment of the Exchange .
- (ix) reference number of the contract 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) details of upfront deposits collected by member for each constituent describing the form and value, mentioning appropriate haircuts.
- (xiii) Risk disclosure documents executed by each constituent approved to trade in derivatives,
- (xiv) Margin call made and met.
- (f) Order book in respect of Trading Member's own orders
- (g) Every Trading Member shall preserve the following reports produced from the trading system for a period of five years.
  - (i) Activity Log
  - (ii) Orders Cancelled Today
  - (iii) New Orders Today
  - (iv) Outstanding Orders Today
  - (v) Trades done Today
- (h) Records in respect of interest received on securities of constituents, monies borrowed and loaned including monies received.
- (i) Records in respect of brokerage collected separately from constituents.
- (j) A Register of transaction (or other records of original entry) executed by Trading Members on behalf of Constituents containing an itemised daily record of all purchases and sales of securities, showing for each such transaction effected, contract specifications, value of derivatives contracts, expiration dates of derivatives contracts, rates both gross and net of brokerage and name of constituents.
- (k) Register of transactions for trades executed by the Trading Member on his own behalf containing such particulars as may be specified by the F&O Segment of the Exchange

- (l) Every Trading Member shall keep such records and books of accounts, as may be necessary, to distinguish constituent's contracts from its own contracts. These should be maintained on a Pro & Cli basis where Pro stands for Proprietary (indicates trade carried on his own account) and Cli stands for trade carried out for constituents. This is necessary to determine the amounts of brokerage and margins to be recovered from the constituents. Such records for constituent's contracts shall inter-alia, provide for the following :
    - (i) Contracts held in custody by the Trading Member as security deposit/margin, etc. Proper authorisation from constituent for the same shall be obtained by Trading Member;
    - (ii) Fully paid for constituent's securities registered in the name of Trading Member, if any, towards margin requirements, etc.
    - (iii) Trading members should maintain records in respect of charges collected from constituents.
    - (iv) Record of the Long and Short position of the Trading Member as well as that of each of his constituents.
  - (m) Margin book for constituents and for Trading Members' own account trades containing the particulars relating to the amount of margins deposited by each constituent and the amount of margin released to each constituent.
  - (n) Client-wise & scrip-wise register of Securities and holding statement for all accounts where client securities are held as margin/collateral.
- 6.1.5 Trading Members shall maintain and preserve for a period of seven years a mapping of client IDs used at the time of order entry in the trading system with those unique client IDs along with client name, address and other particulars given in the Know your Client form.
- 6.1.6.1 (a) Every Trading Member shall keep for a period of three years such books of accounts, as shall be necessary, to show and distinguish in connection with his business as a Trading Member and also to comply with Rule 15 of Securities Contracts (Regulation) Rules, 1957 :
  - (i) The moneys received from or on account of and moneys paid to or on account of each of his constituents; and,
  - (ii) The moneys received and the moneys paid on Trading Member's own account.
- (b) It shall be compulsory for all Trading Members to keep the money of the constituents in a separate account and their own money in a separate account. *Bank account(s) holding constituent funds shall be named as "Name of Stock Broker - Client Account"*. No payment for transaction in which the Trading Member is taking a position as a principal shall be allowed to be made from the constituent's account.
  - (c) Every Trading Member shall send a complete 'Statement of Accounts' for both funds and securities in respect of each of its clients in such periodicity not exceeding three months (Calendar quarter) within a month of the expiry of the said period. The Statement shall also state that the client shall report errors, if any, in the Statement within 30 days of receipt thereof to the



6.1.6.2 The transfer from constituent's account to Trading Member's account shall be allowed under circumstances enumerated below :

- (i) **Obligation to pay money into "Constituents account"**: Every Trading Member who holds or receives money on account of a constituent shall forthwith pay such money to current or deposit account at bank to be kept in the name of the Member in the title of which the word "Constituents" shall appear (hereinafter referred to as "Constituents Account"). Trading Member may keep one consolidated constituents account for all the constituents or accounts in the name of each constituent, as he thinks fit; provided that when a Trading Member receives a cheque or draft representing in part money belonging to the constituent and in part money due to the Trading Member, he shall pay the whole of such cheque or draft into the constituents account and effect subsequent transfer as laid down below in para (iii.b).
- (ii) **Money to be paid into "constituents account"**: No money shall be paid into constituents account other than -
  - a. money held or received on account of constituents;
  - b. such moneys belonging to the Trading 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 Trading Member representing in part money belonging to the constituent and in part money due to the Trading Member.
- (iii) **Money to be withdrawn from "constituents account"**: No money shall be drawn from constituents account other than -
  - a. money properly required for payment to or on behalf of constituents for or towards payment of a debt due to the Member from constituents or money drawn on constituent's authority, or money in respect of which there is a liability of constituents 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 such each constituent;
  - b. such money belonging to the Trading Member as may have been paid into the constituent account under para (ii.b) and (ii.d) above;
  - c. money which may by mistake or accident have been paid into such account.
- (iv) **Right to lien, set-off etc., not affected**: Nothing in this para 1 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 constituents account.
- (v) (a) The Trading Members shall keep the dematerialised securities of Constituents in a separate beneficiary account distinct from the

beneficiary account maintained for holding their own dematerialised securities. No delivery towards the own transactions of the Trading Members shall be allowed to be made from the account meant for Constituents. For this purpose, every Trading Member is required to open a beneficiary account in the name of the Trading Member exclusively for the securities of the Constituents (hereinafter, to be referred to as “Constituents beneficiary account”). A Trading Member may keep one consolidated Constituents’ beneficiary account for all its Constituents or different accounts for each of its Constituents as it may deem fit.

- (b) Securities to be delivered into Constituents beneficiary account: No security shall be delivered into Constituents beneficiary account, other than-
- A. securities held or received on account of Constituents towards margin or as security deposit;
  - B. securities for replacement of those which may by mistake or accident have been drawn from the account.
- (c) Securities to be withdrawn from Constituents beneficiary account: No security shall be drawn from Constituents beneficiary account other than-
- A. when they are properly required, for delivery to or on behalf of Constituents; for or towards meeting the Constituents’ margin or pay- in obligations;
  - B. what are drawn under Constituents’ authority or in respect of which there is a liability of Constituents to the Trading Member;
  - C. securities which by mistake or accident have been deposited into the account;

Provided further that the securities so drawn shall not in any case exceed the securities so held for the time being for the respective Constituent.

- 6.1.7 Every Trading Member shall maintain permanently copies of agreements executed with each of its constituent in accordance with the F&O Segment of the Exchange requirements.
- 6.1.8 Every Trading Member shall maintain permanently copies of agreements and documents executed with each of the settling agencies or banks.
- 6.1.9 Every Trading Member shall maintain records of all relevant particulars of persons which are approved as approved users by the F&O Segment of the Exchange .

- 6.1.10 Every Trading Member shall maintain 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.
- 6.1.11 Every Trading Member shall maintain all guarantees of accounts and all 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 a Trading Member.
- 6.1.12 Every Trading Member shall maintain all written agreements and documents (or copies thereof) entered into by that Trading Member relating to its business as such, including agreements with respect to any account.
- 6.1.13 Every Trading Member shall preserve for a period of not less than five years after the closing of any constituent's account any records which relate to the terms and conditions with respect to the opening and maintenance of such account, date of entering into agreement with the constituent, date of modification thereof, date of termination and representatives of such constituent who signed in each case.
- 6.1.14 A Trading Member shall intimate to the F&O Segment of the Exchange the place where these records are kept and available for audit/inspection.
- 6.1.15 The above requirements relating to maintenance of records shall apply not only to records of the member's principal office but also to those of any branch office and to any nominee company owned or controlled by a Trading Member for the purpose of conducting the business of the Trading Member.
- 6.1.16 Each Trading Member shall keep and preserve a record of all written complaints of its constituents showing the reference number of constituent, date, constituent's name, particulars of the complaints, action taken by the Trading Member, if the matter is referred to arbitration to the F&O Segment of the Exchange then the particulars thereof and record of resolution of the complaint by the member.
- 6.1.17 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 member, whether they have been lodged as collateral security for loans or advances.
- 6.1.17 A The Trading Member shall maintain records of collateral so as to ensure proper audit trail of use of Constituent's collateral and such other records relating to his business as may be prescribed by the Exchange from time to time.
- 6.1.18 Every Trading Member shall keep copies/duplicates of Contract Notes issued by the Member and details of any statements which are required by these Rules to appear on Contract Notes.

- 6.1.19 For the purpose of Regulation Nos. 6.1.4, 6.1.6.1 and 6.1.13, the term of 5 years or 3 years, as the case may be, shall be reckoned from the date of closure of account or termination of contract of a Constituent or after the final settlement or adjudication of the dispute where there is a dispute between the Trading Member and the Constituent.
- 6.1.20 Notwithstanding anything contained hereinabove, every Trading Member of the F&O Segment of Exchange shall preserve the originals of the documents, both in electronic and physical form, copies of which have been taken by CBI, Police or any other enforcement agency during the course of their investigation till the trial is completed.
- 6.1.21 Every Trading Member of the Exchange shall maintain the evidence of order placement for a minimum period as may be specified by SEBI/Exchange from time to time.
- 6.1.22 All Trading Members shall maintain the register of Securities, securities holding statements, client ledger & Bank books in format as may be prescribed by the Exchange from time to time

## **6.2 ANNUAL ACCOUNTS AND AUDIT**

- 6.2.1. Each Trading Member shall prepare annual accounts for each financial year ending on 31st March or such other date as advised to the F&O Segment of the Exchange.
- 6.2.2. 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 at the date to which it is made up.
- 6.2.3. Each Trading Member shall furnish to the F&O Segment of the Exchange, its audited financial statement and such report shall be furnished not later than six months after the end of the Trading Member's financial year, provided that when the F&O Segment of the Exchange is satisfied that circumstances warrant an extension of time necessary to furnish such report, it may grant an extension of such time as it may deem fit.
- 6.2.4 Each Trading Member shall get the complete internal audit done on a half yearly basis by an independent qualified Chartered Accountant, Company Secretary or Cost and Management Accountant, who is in practice and does not have any conflict of interest and submit the report within such time and in such format as may be prescribed by the Exchange from time to time.

## 7. INSPECTION

### 7.1 INSPECTION AUTHORITY

7.1.1 Where it appears to the F&O Segment of the Exchange so to do, it may appoint one or more persons as inspecting authority to undertake inspection of books of accounts, other records and documents of the Trading Members and Constituents for any of the purposes specified in regulation 7.1.2.

- (a) The Inspecting authority appointed by the F&O Segment of the Exchange under Regulation 7.1.1. may be either its own officials or such authorised person as the Board may appoint from time to time.
- (b) When the F&O Segment of the Exchange appoints outside professionals as an inspecting authority, it shall notify the Trading Member the names and addresses of the professionals or firms so appointed as an inspecting authority at the time of inspection.
- (c) When outside professionals are appointed as an inspecting authority in respect of a Trading Member and such professionals are already related in any other capacity with the Trading Member then such member shall forthwith inform the F&O Segment of the Exchange of such relationship.
- (d) Where after appointment of any outside professional as an inspecting authority in respect of a Trading Member, the Trading Member or any of its associates engages the inspecting authority for its services in any other capacity, the inspecting authority shall not engage itself in such other professional capacity with the Trading Member or any of its associates without prior consent of the F&O Segment of the Exchange.

7.1.2 The purposes referred to in regulation 7.1.1. shall be as follows, namely :

- (a) to ensure that the specified records, books of accounts and other books are being maintained in the manner required;
- (b) to ensure that the provisions of SEBI Act, Rules and Regulations thereunder are being complied with;
- (c) to ensure that provisions of the Securities Contracts (Regulation) Act and the Securities Contracts (Regulation) Rules are being complied with;
- (d) to ensure that various provisions of NSE Bye-laws, Rules and Regulations and any directions or instructions issued thereunder are being complied with;
- (e) to investigate into the complaints received from investors, other members of the F&O Segment of the Exchange or any other person on any matter having a bearing on the activities of the Trading Member;
- (f) to investigate suo-moto, for any reason where circumstances so warrant an inspection, into the affairs of the Trading Member;

- (g) to examine whether any notices, circulars, instructions or orders issued by the F&O Segment of the Exchange from time to time relating to trading and other activities of Trading Members are being complied with;
- (h) to comply with any of the directives issued in this behalf by any regulating authority including Government of India.

## **7.2 NOTICE**

- 7.2.1 Before undertaking any inspection under regulation 7.1.1, the F&O Segment of the Exchange shall give a reasonable notice to the Trading Member for that purpose.
- 7.2.2 Notwithstanding anything contained in sub regulation 7.2.1, where the F&O Segment of the Exchange 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 notice.
- 7.2.3 The inspecting authority appointed by the F&O Segment of the Exchange 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 regulation 7.3.

## **7.3 OBLIGATIONS OF A TRADING MEMBER ON INSPECTION**

- 7.3.1 It shall be the duty of every director, officer and employee of the Trading Member, who is being inspected, 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.
- 7.3.2 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 F&O Segment of the Exchange.
- 7.3.3 The inspecting authority, in the course of inspection shall be entitled to examine or record statements of any member, director, officer and employee of the Trading Member or of any associate of such Trading Member.
- 7.3.4 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 Trading Member may be reasonably expected to give.

7.3.5 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 which the inspecting authority may find relevant.

7.3.6 The inspecting authority shall have access to the accounts and other records relating to the Trading Member or such access as authorised by the F&O Segment of the Exchange to the accounts and other records relating to any associate of the Trading Member as are within the power of the Trading Member to provide.

#### **7.4 SUBMISSION OF REPORT**

7.4.1 The inspecting authority shall submit an inspection report to the F&O Segment of the Exchange, within such time as the F&O Segment of the Exchange may specify in this regard.

7.4.2 (a) The F&O Segment of the Exchange 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 F&O Segment of the Exchange on the findings of the Inspecting Authority.

(b) On receipt of the explanation, if any, from the Trading Member the F&O Segment of the Exchange may call upon Trading Member to take such measures as the F&O Segment of the Exchange may deem fit in the public interest.

(c) Notwithstanding anything contained in sub regulation 7.4.2 (a), where the F&O Segment of the Exchange 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.

7.4.3 The F&O Segment of the Exchange may, at its discretion, require from the constituents 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.

#### **7.5 COLLECTION AND DISSEMINATION OF INFORMATION**

7.5.1 The Exchange may call upon the trading members to furnish such information and / or explanation with regard to any constituent, dealings, settlement, account and/or other related matters.

7.5.2 The Stock Exchange shall maintain the details of the clients of the members in confidence and that it shall not disclose to any person /entity such details of the client as mentioned in the client registration form or any other information pertaining to the client except as required under the law or by any authority.

- 7.5.3 Notwithstanding anything contained in any of the regulations, the Exchange may at its discretion disseminate to other stock exchanges or regulatory authorities or to the general public, any information including information relating to any trades, dealings, settlement of dealings, accounting, disciplinary action initiated/taken against Trading Members and/or other matters relevant for enforcement or regulatory purposes.