

**MASTER CIRCULAR FOR STOCK EXCHANGES**

**ANNEXURE 3**

**SETTLEMENT**

1. This Master Circular includes circulars issued upto March 31, 2013.
2. Master Circular is a compilation of all the existing/applicable circulars issued by Market Regulation Department of SEBI to Stock Exchanges and shall come into force from the date of its issue.

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## SECTION - 1: ACTIVITY SCHEDULE

### 1.1 Rolling settlement

In April 2002, the Indian capital markets introduced T+3 rolling settlement cycle. The settlement cycle of T+3 under the Rolling Settlement System, was shortened further to T+2 rolling settlement, w.e.f. April 01, 2003.

### 1.2 Activity Schedule for T+2 Rolling Settlement<sup>1</sup>

The activity schedule is as under:

S. No.	Day	Time	Description of activity
1	T		Trade Day
2	T+1	By 1.00 pm	Completion of custodial confirmation of trades to CC/CH. (There is no separate extended time limit for late confirmations).
		By 2.30 pm	Completion of process and download obligation files to brokers/ custodians by the CC/CH.
3	T+2	Until 10.30 am	Accept Pay-in instructions from investors into pool account
		By 10.30 am	Submit final pay-in files to the depository and the clearing bank.
		By 1.30 pm	Pay-out of securities and funds.

### 1.3 Systems for effecting settlement on T+2 basis<sup>2</sup>

The stock exchanges shall also put in place the following systems for effecting settlement on T+2 basis.

- A facility of late confirmation of trades by the custodians shall be provided. However, the time limit for late confirmation shall be fixed in a manner that the download of the final obligation files to brokers is not delayed.
- The stock exchanges would levy an additional charge to discourage late confirmations by the custodians.
- The stock exchanges would provide a system for handling shortages of funds and securities in an expeditious manner to adhere to the time schedule for pay-out.

<sup>1</sup> Circular No. MRD/Dop/SE/Dep/Cir-18/2005 dated September 02, 2005

<sup>2</sup> Circular No. SMD/POLICY/Cir - /03 dated February 6, 2003

- d. The stock exchanges would also amend their byelaws to mandate the pay out of funds and securities to the clients by the broker within 24 hours of the payout.
- e. The stock exchanges shall design an alternative clearing and settlement system in respect of companies whose shares have not been dematerialised to align the clearing and settlement system for such stocks with the T + 2 rolling settlement.
- f. The stock exchanges shall not normally permit changes in the Client ID and would keep a strict vigil on cases of client code modification and would implement a monetary penalty structure that would escalate with the number of such incidences. Besides, the exchanges may take necessary action against members making repeated changes. However, genuine mistakes may be allowed to be rectified.
- g. Stock exchanges would encourage members to adopt automatic downloading of pay-in files for securities and funds. The members would also be encouraged to adopt direct transfer of securities/ funds to clients' account on pay-out.

The stock exchanges may also provide the following facilities desirable for further smoothing clearing and settlement process, though these may not be pre-conditions for introduction of T + 2 rolling settlement.

- a. Facility of online confirmation of trades by custodians.
- b. System to capture the details of the client's depository account and bank account.
- c. System for online transmitting the client wise pay-in obligation to depository so that the depository in turn could download the security pay-in instructions to depository participants in respect of the investor maintaining account with them.
- d. System wherein the pay-out files could be sent to the clearing banks with a request to online credit to the bank accounts of the clients.
- e. The stock exchanges would support development of front end software for brokers to map the Client ID through abbreviated keys to facilitate faster order entry for inserting the unique client code speedily.

#### 1.4 Activity schedule for Auction Session<sup>3</sup>

The activity schedule given below shall be applicable with effect from February 1, 2011 -

Rolling settlement for T day trade

S. No.	Day	Description of activity
1	T	Trade Day
2	T+2	Pay-in/Pay-out of securities and funds

Auction settlement for T day trade

3	T+2	Auction session
4	T+3	Pay-in/pay-out and close-out of auction

Incase of bank holidays, when multiple settlements (say S<sub>1</sub> and S<sub>2</sub>) are conducted on the same day (say T<sub>m</sub>), on the working day immediately following the day(s) of the closure, the auction session shall be as under:

- a. The auction of first settlement (S<sub>1</sub>) shall be conducted on the same day (T<sub>m</sub>) and settled the next day (T<sub>m</sub>+1).
- b. The auction for the second settlement (S<sub>2</sub>) shall be conducted on the next day (T<sub>m</sub>+1) along with the shortages/auction of that day. The settlement of the same shall happen on the subsequent day (T<sub>m</sub>+2).

## **SECTION - 2: CLOSE-OUT AND AUCTION / NO DELIVERY PERIOD / BOOK CLOSURE AND RECORD DATES**

### **2.1 Close-out Procedure<sup>4</sup>**

The Close out Procedure is as below:-

"The close out Price will be the highest price recorded in that scrip on the exchange in the settlement in which the concerned contract was entered into and upto the date of auction/close out

**OR**

20% above the latest available closing price at the exchange on the day on which auction offers are called for.

**WHICHEVER IS HIGHER."**

### **2.2 Close out procedure for cases where "No Delivery Period"<sup>5</sup> is abolished**

In cases where "no delivery period" is abolished any short delivery by any member in the previous settlement where delivery was to be on cum basis can be closed out to the extent of the short delivery. In case of such direct close-out, the mark-up price would be 10%.

The reference price for such close out shall be the latest available closing price at the exchange.<sup>6</sup>

### **2.3 Close-out Procedure in case of indefinitely suspended/delisted scrips<sup>7</sup>**

In the case of close out for scrips which have been indefinitely suspended/delisted, the reference price would be the twenty-six weeks average traded price while the close out mark up would be 20%.

### **2.4 Close-out mark up in respect of Debentures and Bonds traded on the Stock Exchanges<sup>8</sup>**

The debentures and bond issued by the companies which are traded at the exchanges do not experience daily price variation in fashion similar to the equities. Therefore close out mark up of 5% would be applied in case of

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<sup>4</sup> Circular No. SMD/Policy/Cir-08/2002 dated April 16, 2002  
Circular No. SMD/Policy/IECG/5548/96 dated December 09, 1996

<sup>5</sup> Circular No. SMD/Policy/Cir-08/2002 dated April 16, 2002

<sup>6</sup> Circular No. SMD/Policy/Cir-08/2002 dated April 16, 2002

<sup>7</sup> Circular No. SMD/Policy/Cir-21/02 dated September 04, 2002

<sup>8</sup> Circular No. SEBI/SMD/SE/Cir-26/2003/25/06 dated June 25, 2003

debentures and bonds which are assigned a credit rating of triple A and above. However, for the other debentures and the bonds without the triple A credit rating, the existing close out mark up of 20% shall be applicable as is applicable in the case of equities.

#### **2.5 Auction<sup>9</sup>**

- i. In no case the auction would be held more than once unless the same is approved by a special resolution of the Governing Board. The outstanding position at the end of the first auction cycle shall be automatically closed out.
- ii. In no case the auction shall be held beyond a period of one week from the pay in day of the settlement in which the concerned contract had been entered into.

#### **2.6 Proceeds from Auction/ Close-out<sup>10</sup>**

The Proceeds from Auction/ Close-out should be used to settle the claim of the aggrieved party. Any amount remaining thereof should be credited to the Investor Protection Fund instead of crediting it to the defaulting party's account.

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<sup>9</sup> Circular No. SMD/Policy/IECG/5548/96 dated December 09, 1996

<sup>10</sup> Circular No. SMD/Policy/Cir-10/99 dated May 04, 1999

## **SECTION - 3: DELIVERY VERSUS PAYMENT (DVP) / HAND DELIVERY BARGAINS**

### **3.1 Hand Delivery Bargains/ DVP<sup>11</sup>**

All transactions executed on the stock exchanges shall be settled through the Clearing Corporation/House of the stock exchanges except for the following exceptional circumstances under which Hand Delivery Bargains/DVP may be permitted by the stock exchanges without attracting any margins and any penalty:

- a. Total connectivity failure to the exchange/STP. (Specific connectivity issues of the custodians and members shall not be considered as valid exceptions).
- b. International Holidays that may be decided upfront by the stock exchanges in consultation with the custodians.
- c. Closing down of national/international centres due to calamities

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<sup>11</sup> Circular No. MRD/DoP/SE/Cir- 17/2005 dated September 2, 2005

## **SECTION - 4: INVESTOR PROTECTION FUND / CUSTOMER PROTECTION FUND<sup>12</sup>**

### **4.1 Guidelines for Investor Protection Fund at Stock Exchanges**

The Central Government, vide notification No. F. No. 14/4/SE/85 dated August 22, 1985, has stipulated the setting up of the Investor Protection Fund (IPF)/ Customer by Stock Exchanges. This fund should take care of legitimate investment claims which are not of speculative nature of the clients of defaulting member(s).

### **4.2 Constitution and Management of the IPF/CPF**

1. The Investor Protection Fund/Customer Protection Fund (hereinafter referred to as IPF/CPF) shall be administered by way of a Trust created for the purpose.
2. The IPF/CPF Trust shall consist of atleast one public representative, one representative from the registered investor associations recognized by SEBI and the Executive Directors/Managing Directors/Administrators of the Stock Exchange.
3. The Stock Exchange shall provide the secretariat for the IPF/CPF Trust.
4. The Stock Exchange shall ensure that the funds in the IPF/CPF are well segregated and that the IPF/CPF is immune from any liabilities of the Stock Exchange.

### **4.3 Contribution to IPF/CPF**

5. The following contributions shall be made by the Stock Exchange to the IPF/CPF:-
  - a. 1% of the listing fees received, on a quarterly basis.
  - b. 100 % of the interest earned on the 1% security deposit kept by the issuer companies at the time of the offering of securities for subscription to the public, immediately on refund of the deposit.
  - c. The difference of amount of auctions / close-out price in pursuance of circular no. [SMDRP/Policy/Cir-10/1999 dated May 04, 1999](#).
  - d. The amount received from the proceeds of the sale of the securities written off as per para 4 & 5 of SEBI circular No. [FITTC/FII/02/2002 dated May 15, 2002](#).

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<sup>12</sup> Circular No. MRD/DoP/SE/Cir-38/2004 dated October 28, 2004

- e. The amounts specified in pursuance of Regulation 28(12) (e) (ii), Regulation 28(13) and Regulation 29 (2) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.
6. As regards the contribution towards the IPF based on the transaction charges collected from the members of the exchange, the Stock Exchanges shall continue with the present practice followed by the respective Stock Exchanges.

#### **4.4 Manner of filling /inviting claims from investors**

7. In accordance with its bye-laws, rules or regulations, the Stock Exchange shall publish a notice inviting the legitimate claimants to file claims against the defaulter member brokers within a specified period of time, called as the “specified period”.
8. The specified period for inviting legitimate claims against a defaulter member, shall be a minimum of ninety days<sup>13</sup>.
9. The Stock Exchange shall publish the notice in all the editions of atleast one English national daily with wide circulation and in atleast one regional language daily with wide circulation at the place where the Stock Exchange is situated.
10. The notice calling for claims shall also be displayed on the premises of the Stock Exchange as well as on the web-sites of the Stock Exchange for the entire specified period.
11. The notice shall contain the specified period, the maximum compensation limit for a single claim of an investor, etc.

#### **4.5 Eligible Claims**

12. The claims received against the defaulter members during the specified period shall be eligible for compensation from the IPF/CPF.
13. If any eligible claims arise within three years from the date of expiry of the specified period such claims shall be borne by the stock exchanges without any recourse to the IPF/CPF<sup>14</sup>.

**Provided that** any claims received after three years from the date of expiry of the specified period may be dealt with as a civil dispute.

**Provided further that** in cases where any litigations are pending against the defaulter member, the residual amount, if any, may be retained by the stock exchange until such litigations are concluded.

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<sup>13</sup> Circular No. CIR/MRD/DP/06/2011 dated June 16, 2011

<sup>14</sup> Circular No. CIR/MRD/DO/06/2011 dated June 16, 2011

14. The claims of the investors/clients shall be eligible for compensation from the IPF/CPF and in no case the claims of a broker or an associate of the member broker of the Stock Exchange shall be eligible for compensation out of the IPF/CPF.
15. The claims of the investors/clients arising out of speculative transactions shall not be eligible for compensation from the IPF/CPF. The claim should not be a sham or collusive.

#### **4.6 Determination of Legitimate Claims**

16. The IPF/CPF Trust may adopt the arbitration mechanism at the Stock Exchange to determine the legitimacy of the claims received from the claimants.
17. The IPF/CPF Trust may also seek the advice of the Defaulters Committee to sanction and ratify the payments to be made to the investors.

#### **4.7 Threshold limit for claims**

18. The Stock Exchanges are free to fix suitable compensation limits, in consultation with the IPF/CPF Trust. However, the amount of compensation available against a single claim of an investor arising out of default by a member broker of a Stock Exchange shall not be less than Rs. 1 lakh in case of major Stock Exchanges viz., BSE and NSE, and Rs. 50,000/- in case of other Stock Exchanges.
19. The Stock Exchange, in consultation with the IPF/CPF Trust, shall review and progressively increase the amount of compensation available against a single claim from an investor, atleast every three years.
20. The Stock Exchange shall disseminate the compensation limit fixed by them and any change thereof, to the public through a Press Release and also through its web site.

#### **4.8 Disbursements of claims from the IPF/CPF**

21. The IPF/CPF Trust shall disburse the amount of compensation from the IPF/CPF to the investor and such a compensation shall not be more than the maximum amount fixed for a single claim of an investor.
22. [Deleted]<sup>15</sup>
23. The compensation shall be disbursed to the investor from the IPF/CPF in case there is a shortage of defaulter brokers' assets after its realisation<sup>16</sup>.

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<sup>15</sup> Circular No. CIR/MRD/DP/06/2011 dated June 16, 2011

<sup>16</sup> Circular No. CIR/MRD/DP/06/2011 dated June 16, 2011

24. The Stock Exchange shall ensure that the amount realised from the assets of the defaulter member is returned to the defaulter member after satisfying the claims of the Stock Exchange and the SEBI in accordance with the bye-laws of the Stock Exchange<sup>17</sup>.

**Provided that** in case of a member broker having membership on the multiple stock exchanges, amount realised from the assets of the defaulter member shall be returned to the said member only after satisfying eligible claims of the concerned stock exchange, SEBI, and other stock exchanges.

#### **4.9 Miscellaneous<sup>18</sup>**

25. Post-demutualisation, the balance of the IPF/CPF lying un-utilised with the Stock Exchanges, shall continue to be utilised only for such purposes as prescribed by SEBI.

26. However, if the Stock Exchange is wound up post-demutualisation, then the balance in the IPF/CPF lying un-utilised with the Stock Exchange shall be transferred to SEBI. The funds will be maintained in a separate account and SEBI would act as trustee of these funds. The funds shall be utilised for purposes of Investor education, awareness, research etc.

#### **4.10 Settlement of Claims**

##### **4.10.1 Dealing through the registered sub-broker of a defaulting broker<sup>19</sup>**

With respect to entertaining the claims against the defaulter member for compensation from the Investor Protection Fund/ Customer Protection Fund (IPF/ CPF) where the clients have dealt through the registered sub-broker of the defaulting broker, the clients of the registered sub-broker would also be eligible for claims against the defaulting member broker for compensation from the IPF/ CPF.

#### **4.11 Investor Services Fund<sup>20</sup>**

The Exchange is directed to set aside atleast 20% of the listing fees for providing services to the investing public. The exchange is also directed to provide daily quotation, other publications, computerised services and other services to the members of the stock exchange at cost price.

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<sup>17</sup> Circular No. CIR/MRD/DP/06/2011 dated June 16, 2011

<sup>18</sup> Circular No. MRD/DoP/SE/Cir-38/2004 dated October 28, 2004

<sup>19</sup> Circular No. SMD/Policy/Cir-15/2002 dated June 26, 2002

<sup>20</sup> Ref. No. SE/10118 dated October 12, 1992

#### **4.12 Utilization of Investor Protection Fund/ Investor Service Fund<sup>21</sup>**

To bring about a uniformity/ consistency regarding the functioning of the Investor Protection Fund/ Investor Service Fund of stock exchanges, it is advised that all stock exchanges should open/ maintain atleast one service center for the benefit of the public/ Investors. However, the major stock exchanges are free to open as many investor centers as required. These investor centers will provide the following basic minimum facilities to the investors:

- i. The Center will provide 4 financial newspapers with atleast one in the regional language.
- ii. The Investor Services Center will install computer software (marketed by some vendors) which provide information about Corporates including annual reports, general, financial & other important information. The information will be made available through computers with one master terminal and some dummy terminals through which investors could access this information. Other facilities like copying will be made available to the investors at minimum cost.
- iii. The Center will provide facilities for receiving/recording investor complaints. Special Staff recruited/deployed by the Exchange for this purpose will register the complaints and provide counselling service to the investors. Status of complaints will be maintained and updated in the computer system of the Center.
- iv. The Center will provide for other infrastructure facilities such as telephone, photocopier, furniture, sitting space etc.
- v. The Investor Service Center will provide published material of the Stock Exchange for the benefit of the investors. It should also provide the prospectus and application forms for the forthcoming public issues.
- vi. The Center will provide for dummy terminals to display the prices of the scrips listed on the Exchange on real-time basis, to enable investors watch the price movements of the stocks.
- vii. The Center will maintain a library on relevant laws, financial analysis, market trend analysis etc. for the education of the investors.

#### **4.13 Utilization of Interest Income earned on IPF<sup>22</sup>**

In order to promote investor education and to create greater investor awareness, all the stock exchanges are permitted to utilize interest income earned on Investor Protection Fund for investor education, awareness and research.

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<sup>21</sup> Circular No. SMD/Policy/Cir-32/97 dated December 03, 1997

<sup>22</sup> Circular No. SMD/DBA-1/SS/Policy/Cir-34/2000 dated August 2, 2000

## **SECTION - 5: MODE OF PAYMENT AND DELIVERY**

### **5.1 Mode of Payment and Delivery<sup>23</sup>**

- i. Brokers and sub-brokers should not accept cash from the client whether against obligations or as margin for purchase of securities and / or give cash against sale of securities to the clients.
- ii. All payments shall be received / made by the brokers from / to the clients strictly by account payee crossed cheques / demand drafts or by way of direct credit into the bank account through EFT, or any other mode allowed by RBI. The brokers shall accept cheques drawn only by the clients and also issue cheques in favour of the clients only, for their transactions. However, in exceptional circumstances the broker or sub-broker may receive the amount in cash, to the extent not in violation of the Income Tax requirement as may be in force from time to time.
- iii. Similarly in the case of securities also giving / taking delivery of securities in "demat mode" should be directly to / from the "beneficiary accounts" of the clients except delivery of securities to a recognized entity under the approved scheme of the stock exchange and / or SEBI.

## **SECTION - 6: SETTLEMENT IN CASE OF HOLIDAYS**

### **6.1 Settlement of Transaction in case of Holidays<sup>24</sup>**

Often the holidays of Banks and Stock Exchanges, holidays among Stock Exchanges in different states, are not common. This results in situations where Stock Exchanges are burdened with multiple settlements on the working day immediately following the day(s) of closure. Thus with the view to enable smooth Settlement process and enable Exchanges meet their obligations the Advisory Committee on Derivatives and Market Risk Management (RMG) in consultation with the Stock Exchanges and the Depositories has provided the following guidelines:

- i. The Stock Exchanges shall clear and settle the trades on a sequential basis i.e., the pay-in and the pay-out of the first settlement shall be completed before the commencement of the pay-in and pay-out of the subsequent settlement(s).
- ii. The cash/Securities pay out from the first settlement shall be made available to the member for meeting his pay-in obligations for the subsequent settlement/s.
- iii. Further, in-order to meet his pay-in obligations for the subsequent settlement, the member may need to move securities from one depository to another. The Depositories shall, therefore, facilitate the inter-depository transfers within one hour and before pay-in for the subsequent settlement begins.
- iv. The Stock Exchanges/Depositories shall follow a strict time schedule to ensure that the settlements are completed on the same day.
- v. The Clearing Corporation/Clearing House of the Stock Exchanges shall execute Auto DO facility for all the settlements together, so as to make the funds and the securities available with the member on the same day for all the settlements, thereby enabling the availability of the funds/securities at the client level by the end of the same day.

### **6.2 Settlement in case of Unscheduled Holidays<sup>25</sup>**

If the settlement holiday is unscheduled (on account of strike etc.) the clubbing of settlement at the last minute may not be possible and the provision of SEBI letter (ref. No. SMD/Policy/25249/2001 dated march 19, 2001 to Stock Exchanges) referred in the circular shall be applicable.

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<sup>24</sup> Circular No. SEBI/MRD/Policy/AT/Cir- 19/2004 dated April 21, 2004

<sup>25</sup> Circular No. SMDRPD/Policy/Cir-43/2001 dated August 20, 2001

## **SECTION - 7: TRADE GUARANTEE FUND/ SETTLEMENT GUARANTEE FUND**

### **7.1 Trade Guarantee Fund/ Settlement Guarantee Fund<sup>26</sup>**

In order to ensure timely completion of the settlement, all the stock exchanges were advised to set up clearing house/clearing corporation or settlement guarantee fund. The failure of one member has cascading effects on others as well. Thus objective behind the establishment of clearing corporation/settlement guarantee fund is to ensure that there is no delay in settlement due to failure of any member to honour his commitment to the exchange on time.

### **7.2 The Objective of the Fund**

The objective of the SGF is to guarantee settlement of all transactions of the members of the exchange inter-se through the stock exchange. In the event of a member failing to honour his settlement commitments, the SGF will undertake to fulfill the commitment of that member and will complete the settlement without affecting the normal settlement process. In the case of clearing corporation, all the trades are settled through the clearing corporation and clearing corporation becomes the counter party for all the trades. The clearing corporation also guarantees settlement of all trades.

### **7.3 Corpus of the fund**

The corpus of the fund should be adequate to meet out all the contingencies arising on account of failure of any member/members. The risk/liability to the fund depends on various factors such as trade volume, delivery percentage, maximum settlement liability of the members, the history of defaults at the exchange, capital adequacy of the members, and the degree of surveillance and safety measures i.e. imposition of mark to market margins, trade restrictions etc., implemented by the exchange. A fixed formula, therefore, cannot be prescribed to estimate the risk/liability of the fund. However, in order to assess the fair quantum of the corpus of SGF, an assessment on the following factors prevailing at the particular Stock Exchange may be necessary.

Risk Management system in force at the Exchange

- i. The extent of implementation of various margins systems and the level of threshold limits.
- ii. The percentage of margins (paid by the members) to their pay-in liabilities
- iii. Control on off-market transactions

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<sup>26</sup> Circular No. SMD/POLICY/SGF/CIR-13/97 dated June 09, 1997

Circular No. SEBI/SMD/SE/21 /2003/05/06 dated June 5, 2003

Circular No. SMDRP/POLICY /CIR -16/2001 dated March 9, 2001

- iv. Capital adequacy of members (Base minimum capital and the additional capital deposited with the Exchange)
  - v. The effectiveness of the surveillance system at the Exchange.
  - vi. Minimum expenses limit fixed by the Exchange.
2. The track record of defaults of members (Gross amount of default and the net amount) in the last 10 years.
  3. The track record of disciplinary action for financial defaults taken by the Exchange in the last 10 years
  4. The settlement liability of the top 10 members (settlement liability wise) in the highest settlement in the last 1 year..
  5. Implementation of suggestions made in the SEBI Inspection Reports by the Stock Exchange.
  6. The projected volume of business and deliveries at the Exchange for the next three years.

A realistic assessment on the adequacy of the above factors relating to the particular Stock Exchange need to be made. In case of any deficiency / non-satisfactory level of performance of the Exchange, the expected level of risk/liability to the SGF will increase and accordingly it will require a higher level of corpus.

Further in order to assess the minimum level of corpus of SGF, the following norms may be considered.

- a. It may be assumed that in a worst case, the top ten members (highest settlement in last one year settlement liability-wise) of the exchange would default simultaneously in a settlement.
- b. It may be assumed that there will be a maximum loss of 20% in the value on the net basis in the process of reversing the trade or squaring off the position.
- c. The loss may be assumed to be recovered from the following sources :
  - Margins deposited with the Exchange.
  - The short fall will be first met from Income of the SGF (interest on deposits and recurring sources such as the turnover based contributions from members etc).
  - The, balance, shortfall, if any might be recovered from the corpus of SGF.

In the normal course, the total income from the interest earned on cash portions of the corpus of SGF and other recurring contributions to SGF by member should be adequate to take care of the unexpected liability as per (b) above, For example

if the total loss on settlement liabilities of the top ten brokers is Rs 2 Crs in a particular settlement, income generation from the fund (including recurring income) should not be less than Rs 2 Crs p.a.

#### **7.4 Contribution to the Fund**

The basic objective of the fund is to provide safety to the members against the risk of failure of any other member/s in the settlement, therefore the contribution to the corpus of SGF should be made by the members. The exchange may contribute towards the corpus of the fund out of the free reserves and by way of appropriation of the members fund lying with it. The base minimum capital contributed by the members may be used for building up the corpus of the SGF. For better liquidity, it should be ensured that the securities accepted towards contribution to the base minimum capital consist of only NIFTY (NSE 50 Index) Scrips which are freely usable by SGF in meeting out any risk / liability. The members may also be required to contribute to the fund by way of bank guarantee revocable at the instance of SGF against the default by any member. In order to generate regular income to the fund, the members should pay turnover based contribution to this fund. This contribution made by the members should not be recovered from investors.

#### **7.5 Management of the fund:**

The management of the SGF should be in the hands of an independent committee represented by members and outsiders. The constitution of the committee should be approved by SEBI.

#### **7.6 Access to the fund:**

In the event of a failure of member/s to honour their settlement commitment, the SGF will fulfill the commitment only after declaring the member/s as defaulter/s and such member/s would not be eligible to continue to trade and default proceedings as per the bye-laws of the exchange would have to be initiated against him.

#### **7.7 Recoupment of the corpus**

It should be ensured that the corpus of the SGF will not fall below the initial corpus or 75% of the closing value of the fund as on date immediately preceding March 31, which ever is higher and it will increase in proportion of increase in membership / turnover.

#### **7.8 Utilisation of Settlement Guarantee Fund**

In cases where amount shortages in a settlement for a trading member are in excess of the base minimum capital (BMC) prescribed, the trading facility of the

member shall be withdrawn and the securities pay-out due to the member shall be withheld. The trading facility of the member shall be withdrawn and the securities pay-out due to the member shall be withheld, even in cases where the amount of shortages exceed 20% of the BMC and is less than the BMC on six occasions within a period of three months.

On complete recovery of the shortages, the member shall be permitted to trade with a reduced gross exposure as follows:

Cumulative Funds Shortage	Exposure limit allowed (% of current exposure limit)
20% of BMC – 50% of BMC	80%
50% of BMC – 100% of BMC	60%

This reduced gross exposure level shall be maintained for the member for ten rolling settlements. If the cumulative funds shortages for the next ten rolling settlements (*previously four rolling settlements*), is less than 20% of BMC, the exposure limits shall be restored. However, if a member provides a deposit equivalent to his cumulative fund shortages as the '**funds shortage collateral**' in his clearing account the exposure limit may be restored immediately upon meeting the shortage. Such deposit shall be kept with the Exchange for a period of ten rolling settlements and shall be released only if no further funds shortages are reported for the member in next ten rolling settlements. The member shall not be given any exposure benefit or any interest payment on the amount so deposited as '**funds shortage collateral**'. Members may deposit the '**funds shortage collateral**' by way of cash, fixed deposit receipts or bank guarantee. The outstanding amount would carry a penal interest of not less than **0.07%** (*previously 0.09%*) per day.

The amounts lying in the aforesaid funds would not be available for settling any loss suffered in connection with the margin trading facility. However, the aforesaid funds will continue to be available for all transactions done on the exchange, whether normal or through margin trading facility.<sup>27</sup>

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<sup>27</sup> Circular No. SEBI/MRD/SE/SU/Cir-15/04 dated March 19, 2004  
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## **SECTION -8: TRANSFER OF FUNDS AND SECURITIES**

### **8.1 Transfer of Funds and Securities from member to client<sup>28</sup>**

The member shall transfer Funds and Securities from their respective pool account to the respective beneficiary account of their client within **1 working day after the pay-out day**.

The Securities lying in the pool account beyond the above period would not be eligible for delivery in the subsequent settlement(s) and would also be not eligible for pledging or stock lending purpose, until the same is credited to the beneficiary accounts.

The Securities lying in the pool account beyond the stipulated 1 day shall attract a penalty at the rate of 6 basis point per week on the value of securities. The penalty so collected by the depositories shall be credited to a separate account with the depository and earmarked for defraying the expenses in connection with the investors' education and awareness programs conducted by the depositories.

The securities, which are lying in these accounts beyond the specified time period, shall initially be identified based on FIFO (First-In First-Out) basis. However, with effect from March 5, 2001, the securities shall be identified based on the settlement number basis. The clearing corporation/houses of the stock exchanges shall provide the settlement-wise details of securities to the depositories and the depositories shall maintain the settlement-wise records for the purpose.

Further with effect from April 2, 2001, stock exchanges shall introduce the settlement system for direct delivery of securities to the investors. Clearing corporation/clearing house (CC/CH) shall ascertain from each clearing member, the beneficial account details of their respective clients who are due to receive pay out of securities. Based on this, the CC/CH shall send pay out instructions to the depositories so that the client receives pay out of securities directly to the extent of instructions received from the respective clearing members. To the extent of instruction not received, the securities shall be credited to the CM pool account.

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<sup>28</sup> Circular No. MRD/DoP/SE/Dep/Cir-30/2004 dated August 24, 2004

Circular No. SEBI/MRD/Policy/AT/Cir- 19/2004 dated April 21, 2004

Circular No. SMDRP/Policy/Cir-05/2001 dated February 01, 2001

## **SECTION - 9: TRANSFER DEED**

### **9.1 Affix stamp of member affiliation to stock exchange on reverse of transfer deed (Physical Shares)<sup>29</sup>**

While delivering shares in the market, the delivering broker is required to affix, on the reverse of the transfer deed a rubber stamp indicating his name, clearing number allotted to him by the Stock Exchange of which he is a member and date of such delivery. The following steps are to be followed in order to facilitate the last purchaser, in the event of any problems of bad delivery etc., to approach the first introducing broker for rectification of defect(s).

- (1) All the brokers should have their SEBI Registration number preprinted on their contract notes.
- (2) All brokers should affix rubber stamp on the reverse of transfer deeds with their trade name and SEBI registration number as it appears in the SEBI Registration Certificate. Also the stamp should indicate the name of the Stock Exchange of the which the Broker is a member. The rubber Stamp should be as under:

Name & Name of the Stock Exchange : e.g. J.V.Shah, BOM

SEBI Registration Number:

The brokers should also be instructed to invariably fill in the date of delivery while delivering the shares in the market.

- (3) All the stock Exchanges should incorporate the SEBI Registration numbers of the brokers in the various computer reports generated by them.

### **9.2 Transfer Deed with or without Inscription<sup>30</sup>**

All Transfer Deeds with or without the inscription of the name of the Stock Exchange on the reverse shall be treated as good delivery provided they are complete in all other respects and otherwise in order.

### **9.3 Delay in transfer of shares by companies<sup>31</sup>**

#### **A) Pending Transfer of Share**

- i) In case the transfer deed and the share certificates are with the company awaiting transfer beyond 30 days and in cases where the same are returned by the company to the investor with a company objection including due to signature difference (other than court cases where

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<sup>29</sup> Ref.SMD-I/22532 dated October 19, 1993

<sup>30</sup> Ref. SMD/6059 dated October 17, 1994

<sup>31</sup> Circular No. SMDRP/POLICY/CIR-46/2001 dated September 27, 2001

injunction has been ordered), companies shall effect the transfer of shares on obtaining from the transferee the proof of purchases duly acknowledged by the stock exchange/broker. If so desired, a company may also obtain indemnity bond from the transferee. Before effecting transfer, the company shall within 10 days of the date of such direction, send letters under registered post AD/Speed Post AD to the transferor(s) asking for their confirmations/no-objection, so as reach the company within 15 days from the date of receipt of the letter by the transferor. If the confirmation is received /no-objection is not received within 15 days from the transferor(s), the transfer would be effected immediately thereafter. The valid objection, if any should be accompanied by correspondingly old prohibitory order from a competent authority. Immediately after effecting the transfer of shares, the benefits (i.e. Bonus, rights, dividend) held back by the company shall be handed over to the transferee. If such benefits have been passed on to the transferor, the concerned stock exchange shall arbitrate through the brokers of the transferor and the transferee to determine the rightful claimant. Keeping in view the provisions of Section 206 A of the Companies Act and Section 27 of the Securities Contracts (Regulation) Act, 1956, in such cases, the Stock Exchanges should entertain claims for resolving through arbitration even if they are beyond the stipulated time of 4 months.

- ii) In respect of complaints (other than court cases where injunction has been ordered) where the original transfer deeds have been lost in the process of rectification on account of company objection, companies shall transfer the shares as per the first proviso to sub-section (1) of Section 108 of the Companies Act on obtaining from the transferee the proof of purchases duly acknowledged by the stock exchange/broker on an indemnity bond from the transferee. Before effecting transfer, the company shall within 10 days of the date of such direction, send letters under registered post AD /Speed post AD to the transferor(s) asking for their confirmations/no - objection, so as reach the company within 15 days from the date of receipt of the letter by the transferor. If the confirmation is received/no objection is not received within 15 days, the transfer would be effected immediately thereafter. The valid objection, if any, by the transferor shall be accompanied by correspondingly old prohibitory order from a competent authority. Immediately after effecting the transfer of shares, the benefits (i.e. Bonus, rights, dividend) held back by the company shall be handed over to the transferee. If such benefits have been passed on to the transferor, the concerned stock exchange shall arbitrate through the brokers of the transferor and the transferee to determine the rightful claimant. Keeping in view the provisions of the Section 206 A of the Companies Act and Section 27 of the Securities Contracts (Regulation)

Act, 1956, in such cases, the Stock Exchanges should entertain claims, even if they are beyond the stipulated time.

- iii) In respect of companies where shares and transfer deeds are lying with the investor or introducing broker-member(IM), and IM has already paid/replaced shares to buyer/broker due to bad delivery on account of objection memo raised by the company, but there was a delay on the part of the company in raising objection beyond the stipulated time period of 1 month, shares shall be transferred by the company to the investor/IM, as applicable, provided no objection certificate of the buyer/buying broker is provided.

**B) Procedure for dealing with Company objections in future**

- i) In respect of complaints where shares and transfer deeds are lying with the investor or introducing the broker-member (IM) and IM has already paid/replaced shares to buyer /broker due to bad delivery on account of objection memo raised by the company, but there was a delay on the part of the company in raising objection beyond the stipulated time period of 1 month. In such cases the company would be liable to compensate the aggrieved party for the opportunity losses during the intervening period.
- ii) In cases of company objection due to signature difference (Other than court cases where injunction is ordered), companies shall effect the transfer of shares by following the procedure mentioned below. Before effecting transfer, the company shall within 10 days of receipt of shares from the transferee, send letters under registered post AD/ Speed Post AD to the transferor(s) asking for their confirmations/no-objection, so as to reach the company within 15 days from the date of receipt of the letter by the transferor. If the confirmation is received/no objection is not received within 15 days, the transfer would be effected immediately thereafter. The valid objection, if any, should be followed/accompanied by a prohibitory order from a competent authority and should reach the company within 30 days thereafter, failing which the transfer would be effected. Immediately, after effecting the transfer of shares, the benefits (i.e. Bonus, rights, dividend) held back by the company shall be handed over to the transferee. If such benefits have been passed on to the transferor, the concerned stock exchange shall arbitrate through the brokers of the transferor and the transferee to determine the rightful claimant. Keeping in view the provisions of Section 206 A of the Companies Act and Section 27 of the Securities Contracts (Regulation) Act, 1956, In such cases, the Stock Exchanges are hereby advised to entertain claims even if they are beyond the stipulated time.

- iii) In cases where transfer deed and the share certificates are with the company and the company has not effected transfer of shares, within the stipulated time period of one month, without communicating the investor any valid objection. In such cases the company would be liable to compensate the opportunity losses occurred to the investor(buyer). In addition, the company shall transfer the shares immediately and keeping in view the provisions of Section 206A of the Companies Act and Section 27 of the Securities Contracts (Regulation) Act, 1956, provide all benefits (i.e. bonus shares, dividend) which accrued to the investor during the intervening period on account of such delay.
- iv) Once a share certificate is returned by a transfer agent as a "company Objection" keeping in view the provisions of Section 206 A of the Companies Act and Section 27 of the Securities Contracts (Regulation) Act, 1956, all benefits must be held in abeyance by the company till such time the transfer actually takes place or a valid no objection is received from the Transferee on his receiving replacement.
- v) Every time an introducing broker replaces a bad delivery share or pays for the share to the receiving broker/buyer investor as per market norms, a No Objection Certificate to transfer the shares in the name of introducing member from the receiving broker/buyer investor shall be given to the introducing member broker/seller investor, as applicable, through the Bad Delivery Cell mechanism.

**C) Duplicate Share Certificate**

Where the investor has complained about issuing of duplicate share certificate(s) by the company on the basis of allegedly forged/stolen documents furnished by a third party, the company shall verify and satisfy itself of the claim of the investor, within 15 days of receipt of the claim and take steps including invoking of indemnity bond to issue shares and corresponding benefits to the rightful owner in terms of section 84 of the Companies Act read with Rule 3 of the Companies (Issue of Share Certificates) Rules, 1960.

## SECTION - 10: UNIFORM NORMS FOR GOOD/BAD DELIVERY NORMS<sup>32</sup>

### 10.1 Transfer Deeds

No .	Description	Good/Bad
1.	<p>Transfer Deeds in the prescribed form and printed with the words "For the _____ Stock Exchange."</p> <p>Stock Exchange emblem may or may not be printed. Month and year of printing may or may not be put on the reverse of the Transfer Deed.</p>	GOOD
2.	<p>Mutilated Transfer Deed with the signatures of the transferor, witness, Directors and officer of the Company/distinctive numbers/ any material portion badly torn overwritten, or defaced.</p> <p><u>Typical Cases :</u></p> <p>A) Material portion defined here only pertains to the material portions at the time of delivery and not prospective one. For a buyer Consideration column, Specimen signature column, Name, Address, Occupation will also be the material portion.</p> <p>Material portion includes of transferor's name and signature, company name, folio no., certificate number, distinctive nos., number of shares, name and signature of the transferee, specimen signature of transferee</p> <p>B) Transfer Deed torn in the prospective material portion</p> <ul style="list-style-type: none"> <li>• Torn and pasted with self-adhesive tape on which the required details can filled in without any difficulty.</li> <li>• Transfer Deed torn in non material portion and held together by a transparent tape.</li> <li>• Transfer Deed torn end-to-end in any angle.</li> </ul>	<p>BAD</p> <p>GOOD</p> <p>GOOD</p> <p>BAD</p>
3.	Transfer Deeds with correction in the material portion like, erasure, overwriting, alteration or crossing out by transferor / Authorised Signatory.	GOOD if properly authenticat ed under the full signatures

<sup>32</sup> Circular no. SMD/RCG/2796/96 dated July 16, 1996

Circular no. SMD/POLICY/CIR/7-97 dated April 16, 1997

Circular no. SMD/POLICY/GBDN/CIR-25/97 dated October 09, 1997

		of the transferors.												
	<p>Transfer Deeds with correction in the material portion like, erasure, overwriting, alteration or crossing out in material portion.</p> <p>Undernoted corrections/ alterations are not considered in material portion.</p> <p>A) Minor spelling mistake in the following fields are valid without the transfer's authorisation provided the word can be properly identified :</p> <ul style="list-style-type: none"> <li>a. Name of the company.</li> <li>b. Number of shares in words.</li> <li>c. names of the Shareholders</li> </ul> <table> <thead> <tr> <th><u>Illustration</u></th> <th><u>Good</u></th> <th><u>Bad</u></th> </tr> </thead> <tbody> <tr> <td>Telco</td> <td>Teelco</td> <td>Tisco</td> </tr> <tr> <td>Fifty</td> <td>Feefty</td> <td>feefteen</td> </tr> <tr> <td>Ramesh</td> <td>Rameesh</td> <td>Rajesh</td> </tr> </tbody> </table> <p>B) Eraseure, overwriting, alteration or crossing out in one or two character in folio numbers.</p> <p>C) Erasure, overwriting, alteration or crossing out in one or two character of "Distinctive Numbers".</p> <p>D) Erasure, overwriting, alteration or crossing out in one or two character of "Certificate Numbers ".</p>	<u>Illustration</u>	<u>Good</u>	<u>Bad</u>	Telco	Teelco	Tisco	Fifty	Feefty	feefteen	Ramesh	Rameesh	Rajesh	Good if properly authenticated under the full signatures of all the transferor(s).  Good.
<u>Illustration</u>	<u>Good</u>	<u>Bad</u>												
Telco	Teelco	Tisco												
Fifty	Feefty	feefteen												
Ramesh	Rameesh	Rajesh												
		Good if certificate number does not contain any erasure, overwritting, alteration ,or crossing out.												
		Good if												

	<p>E) Erasure, overwriting, alteration or crossing out in Number of Shares in figure.</p> <p>F) Erasure, overwriting, alteration or crossing out in Number of Shares in figures.          Erasure, overwriting, alteration or crossing out in one or two character in "Numbers of Shares" in words.</p> <p>G) List of certificate numbers and distinctive numbers attached to transfer deed signed by all transferors.</p>	<p>distinctive number does not contain any erasure, alteration or crossing out.</p> <p>Good if Numbers in words does not contain any erasure, overwriting, alteration or crossing out.</p> <p>Good if Numbers of Shares of figurews does not contain any erasure, overwriting, alteration or crossing out.</p> <p>Good</p>
4.	<p>If the name of the transferor (s) in the share certificate &amp; the name in the transfer deed(s) differs materially.</p> <p>Differences of the following type (vice-versa)</p>	BAD

	A) Addition or Deletion of 1 or 2 alphabets B) Krishna Chandra Chelura - C C Krishna C) Corporation - Corp/Corp. D) Ashok Gupta - Gupta Ashok	GOOD BAD GOOD GOOD
5.	Transfer Deeds signed as 'Choonilal' whereas in share certificate the name is spelt as 'Chunilal'.  Other than any apparent difference in seller's signature must be accepted.  In case of apparent difference like S Rao signing as David  In case S Rao signing as Subhash since the first letter of the signature matches with the initial.	GOOD  BAD  GOOD
6.	Transferor's signature in English, Hindi or any one of the Scheduled languages in India. Assamese, Bengali, Gujarati, Hindi, Kannada, Kashmiri, Malayalam, Marathi, Oriya, Punjabi, Sanskriti, Tamil, Telugu and Urdu - as per Constitution of India - English Schedule ( Article 314 (I) and 451).	GOOD
7.	Signature of the Transferor is in an Indian language other than the Scheduled languages of India or when the Transferor has affixed his thumb impression. If attested by any person authorised to attest signatures under the Seal/Stamp of his office.	GOOD
8.	Transfer Deeds in respect of joint holdings signed by all the joint holders in any order . Provided the signatures are against the relative names filled up in the Transfer Deed.	GOOD
9.	Transfer Deeds without the name of the Company, name(s) of Transferor(s), Folio No., share certificate no., Distinctive no., and number of shares being written.	BAD
10.	In one lot with one Transfer Deed name on one certificate reading as "Ramesh C Talati" an on another certificate as "Ramesh Chunilal Talati" but Register Folios same on both. In one lot, separate transfer deeds are required for each registered folio. If the transferor's name is identical and folios are different and there is only one transfer deed.	GOOD  GOOD  GOOD
11.	In one lot with one Transfer Deed names on different certificates reading as Ramesh Chunilal Talati and Talati Ramesh Chunilal but Register Folio is same.	GOOD
12.	Income Tax Authority or Collector signs as Transferor. (Number and Date of the relative Order necessary).	GOOD

13.	Instead of Executor's signature, his Agent's Signature is put on the Transfer Deed. (Number and Date of Registration of Poser of Attorney necessary).	GOOD
14.	Executor's signature without his rubber stamp. (Number and Date of Registration of Power of Attorney necessary).	GOOD
15.	In the case of Units transfer deed in the name of a Minor and signed by natural Guardian. (In the case of Court Guardian, a court order is required).  Shares cannot be held in the name of a Minor unless accompanied by Court Order granting permission for sales/purchase which is beneficial to the Minor.	GOOD  GOOD - if accompanied by the relevant Court Order for sale.
16.	Transfer Deeds signed by an individual against whom insolvency proceedings are pending. <ul style="list-style-type: none"><li>• Unless the transfer deed is duly certified and countersigned by the Official Assignee.</li></ul>	BAD  GOOD
17.	Transfer deeds signed under Power of Attorney where the power given is subject to conditions. <ul style="list-style-type: none"><li>• Transfer deed signed by Director of the Company and Under board Resolution not mentioned on the front or the reverse of the transfer deed.  Transfer deed signed by an authorised signatory under Power of Attorney .</li><li>• Transfer deed signed by an authorised signatory of a custodian and the P A registration no is mentioned on face or the reverse of the transfer deed.</li><li>• Where the transfer deeds are signed by an authorised signatory under a Board Resolution and the stamp UNDER BOARD RESOLUTION is mentioned on the face or the reverse of the transfer</li></ul>	BAD  GOOD  GOOD only if P A regn no, date signature and stamp of the introducin g Member is mentioned on the reverse of the Transfer Deed.  GOOD

	deed.	GOOD
17.	<p>Transfer deeds signed under Power of Attorney where the power given is subject to conditions.</p> <ul style="list-style-type: none"> <li>• Transfer deed signed by Director of the Company and Under board Resolution not mentioned on the front or the reverse of the transfer deed.            ( Stamp of introducing member is not required to be affixed on the reverse of the transfer deed)</li> <li>• Transfer deed signed by an authorised signatory under Power of Attorney .</li> </ul> <ul style="list-style-type: none"> <li>• Transfer deed signed by an authorised signatory of a custodian and the P A registration no. is mentioned on face or the reverse of the transfer deed.            ( Stamp of introducing member is not required to be affixed on the reverse of the transfer deed)</li> <li>• Where the transfer deeds are signed by an authorised signatory under a Board Resolution and the stamp UNDER BOARD RESOLUTION is mentioned on the face or the reverse of the transfer deed.            ( Stamp of introducing member is not required to be affixed on the reverse of the transfer deed)</li> </ul>	BAD GOOD GOOD only if P A regn no, date signature and stamp of the introducing Member is mentioned on the reverse of the Transfer Deed. GOOD GOOD
18.	<p>Transfer Deed signed by a custodian on behalf of a client</p> <ul style="list-style-type: none"> <li>• In the signature column the custodian does not put the stamp as 'Constituted Attorney' on behalf of the transferor.</li> <li>• Transfer Deed signed by a Custodian on behalf of the client and in the signature column it puts the stamp "By Constituted Attorney to the transferor" with the P/A number given on the reverse of the TD with the stamp and signature of the custodian.</li> </ul> <p>The above mentioned details entered on the face of the TD and not mentioned on the reverse of the TD</p>	BAD GOOD GOOD
18.	Transfer Deed signed by a custodian on behalf of a client	

	<ul style="list-style-type: none"> <li>In the signature column the custodian does not put the stamp as 'Constituted Attorney' on behalf of the transferor.</li> <li>Transfer Deed signed by a Custodian on behalf of the client and in the signature column it puts the stamp "By Constituted Attorney to the transferor" with the P/A number given on the reverse of the TD with the stamp and signature of the custodian.</li> </ul> <p>The above mentioned details entered on the face of the TD and not mentioned on the reverse of the TD</p>	BAD GOOD GOOD
19.	Shares sold by FIIs and transfer deed signed by a Custodian on behalf of the FII.  (Copy of RBI approval is not required to be attached with each market lot).	GOOD
19.	Shares sold by FIIs and transfer deed signed by a Custodian on behalf of the FII.  (Copy of RBI approval is not required to be attached with each market lot).	GOOD
20.	In case of GDR, <ul style="list-style-type: none"> <li>photocopies of the RBI approval attached to the deliveries ; OR</li> <li>if RBI approval number and date is mentioned on the transfer deed and attested by the introducing member.</li> </ul>	GOOD GOOD
21.	Consideration amount and date of execution of the transfer deeds are filled in.	BAD
22.	Transfer Deeds signed by or on behalf of a Company against which liquidation proceedings are pending. <ul style="list-style-type: none"> <li>Unless the Transfer Deed is certified and countersigned by the Liquidators.</li> </ul>	BAD GOOD
23.	The name of the delivering broker with his SEBI Registration number and date not mentioned at the back of the Transfer Deed.  In case the shares are delivered to the Clearing House by the Custodian and the Transfer de4ed bears the stamp of Custodian along with the Clearing Number of the Broker on whose behalf the shares are delivered.  The date should be the pay-in date/ delivery date only.	BAD GOOD
24.	Shares held by a TRUST and Signed on the Transfer Deed as 'NAME OF TRUST - PROPRIETOR'.  TD signed as "NAME OF TRUST - TRUSTEE".  Shares held in the name of a trust, if accompanied by a copy of the resolution or the relevant portion of the trust deed authorising the	BAD BAD GOOD

	trustees to transact in securities on behalf of the trust.	
25.	If shares held are duly registered by the company in the name of the HUF ( Shares held by HUF and signed by KARTA).	GOOD
26.	Transferor's signature witnessed by a person but his full name not give. (as long as the name and address of the witness are perfectly legible).	GOOD
27.	Witness's name, address and signature is in a language other than English specified by the Ministry of Finance.  Assamese, Bengali, Gujarati, Hindi, Kannada, Kashmiri, Malayalam, Marathi, Oriya, Punjabi, Sanskrit, Tamil, Telugu and Urdu - as per Constitution of India - English Schedule ( Article 314(I) and 451). If signed in a language other than specified by the Ministry of Finance.	GOOD  BAD
28.	Attestation stamp in any one of the Scheduled languages in India, Indian languages :  Assamese, Bengali, Gujarati, Hindi, Kannada, Kashmiri, Malayalam, Marathi, Oriya, Punjabi, Sanskrit, Tamil, Telugu and Urdu - as per Constitution of India - English Schedule ( Article 314(I) and 451).	GOOD
29.	Transferor's signature attested by a Bank official <ul style="list-style-type: none"> <li>• only the designation mentioned.</li> <li>• If the name, Designation of the attesting authority signing alongwith the complete address is given</li> </ul>	BAD GOOD
30.	Attestation by Gram Panchayat or a Surpanch or Village Magistrate or Village Munsiff under his seal.	GOOD
31.	Signature attested by any person authorised to attest signatures with his full name and address with the Official Seal/Stamp of his office.	GOOD
32.	Transferor's signature is attested by a Notary Public. (The necessary seal, rubber stamp, adhesive stamps as prescribed for such attestation should be affixed in cases where Notary attestation is required i.e. In cases where Rectification of objections is required due to signature differences).	GOOD
33.	Transfer Deed is signed by the transferor <ul style="list-style-type: none"> <li>• signature is clearly of a name different than the name of the transferor.</li> <li>• If signature is same for two different shareholders under two different Transfer Deeds.</li> </ul>	BAD BAD
34.	Marketable lot with more than five transfer deeds. Upto five transfer deeds used to make a marketable lot.	BAD GOOD
35.	New shares which are issued on prorata basis and old shares standing in the folio and name of same transferor and accompanied by one transfer deed for a marketable lot. (The new share dividend declared for the previous year i.e. the old new compensatory value (ONCV) would be payable on the entire market lot).	GOOD

36.	Company's name has been changed but it has not been corrected on the share certificate.	GOOD
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37.	Abbreviated name of a Company filled up in the transfer deed. If from the abbreviated name the identity of the company can be ascertained. The name of the Company should be identifiable ., e.g. TELCO, TISCO, L&T, etc.	GOOD
38.	Exact position of Tds to be attached on top of the certificate. TD should be placed on the top of the share certificate.	
39.	Transferor and witness is the same.	BAD
40.	Transfer Deed in the prescribed form and name of a particular Stock Exchange filled in or not.	GOOD
41.	Transfer Deed not in the prescribed form.	BAD
42.	Witness and attesting authority identical.	GOOD
43.	Transfer Deeds bearing signatures of witnesses, the address of the witness being in a different city or town or Centre other than that of Transferor or Transferee.	GOOD
44.	Prescribed Authority (ROC) seal overlapping and stamped twice. Even if the signature of the Registrar of Companies is partly printed and the date stamp is also partly printed but both the signature and the date should be apparent.	GOOD
45.	The Endorsement of the Prescribed Authority (e.g. Registrar of Companies ) bears the same date as the date from which the Register of Members of the Company is closed.	GOOD
46.	If the Endorsement of the Prescribed Authority (e.g. Registrar of Companies) bears a date prior to the date of issue of share certificate or the date of allotment of shares. Provided the Endorsement of the Prescribed Authority bears a date of or after the date from which the Register of Members of the Company closed last.	Good
47.	Transfer Deed endorsed by the Prescribed Authority on a date prior to closure of the Register of Members of the Company delivered after the date of closure of Register of Members.	Bad
48.	Transfer Deeds accompanying debenture certificates or any other permissible listed security (other than equity) whether date-stamped by the Prescribed Authority or not. Provided for the convertible portion a separate date-stamped Transfer Deed is delivered.	Good
49.	Transferor's signature on the transfer deed with the date on which he has signed.	GOOD
50.	Witness is a Non-Resident and the address given is of a foreign country.	GOOD

51.	Distinctive numbers range "To" partly filled in the transfer deed., e.g. 4589201 - 300 etc.	GOOD
52.	In the case of mutual funds, the ROC stamp and signature are missing (except in case of Schemes of Unit Trust of India).	GOOD
53.	Certificates with multiple folios per market lot attached to separate transfer deed (subject to guideline no.35 above).	GOOD
54.	Logo of the Stock Exchange on the reverse of the transfer deed missing.	GOOD
55.	Attestation of the transferor's signature is not mandatory. except in the case where the transfer has been returned by the company due to SIGNATURE DIFFERENCE.	GOOD
56.	Units issued with the terms 'either or survivor', if signed by all holders  If signed by any one of the holders	GOOD GOOD
57.	Transferor's signature on the transfer deed is facsimile signature for Registered Custodians.	GOOD
58.	Certified Transfer Deed  Provided the name and address of the Transferor the distinctive numbers of the shares covered by the Transfer Deed and date of certification are given.	Good
59.	Any erasure or alteration in the Certified Transfer Deed. When authenticated by an authorised signatory of the Company.	Good
60.	Certified Transfer Deeds and share certificates delivered in part for bargains in market trading unit.	Good
61.	In case of shares under lock in-period, if the transfer deed date is prior to the lock-in period last date but the date of introduction into the market is after the last date of lock-in period.  If the transfer deed date is prior to the lock-in period last date and the date of introduction into the market is before the last date of lock-in period.	GOOD BAD
62.	Some companies allot record numbers for shares issued by them apart from distinctive number ranges. For these shares, if record number is filled up along with distinctive number ranges on the transfer deed. If only the record number has been filled up instead of distinctive number ranges on the transfer deed.	GOOD BAD
62 A	Transfer deeds (dated July 1, 1997 and thereafter) <sup>33</sup> bearing rubber stamps on the reverse thereof other than those of members of the stock exchanges/clearing house/clearing corporations, SEBI registered sub-brokers and Remisiers registered with the stock exchanges.	BAD

<sup>33</sup> Circular No. SMD/POLICY/SUB BROKER/CIR-12/97 dated June 2 1997

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## 10.2 Share Certificates

63.	Name of the company or emblem is not readable in the common seal or there is no common seal on the share certificate -	GOOD.
64.	The last date for payment of call has expired and the call has not been paid or if the call has been paid, the necessary Call Report has not been attached.  The call payment receipt with the stamp of the Bank before or on the due date if attached to the securities is good delivery for three months from the last date of call payment or next book closure announced by the company whichever is later.  All call payment receipts after due date must be endorsed as "cheque/draft realised" by the Bank/co./Registrars.	BAD  GOOD  GOOD
65.	All securities with stickers issued by the companies in lieu of endorsement.	GOOD
66.	If call money paid but not endorsed on share certificate even after the book closure but transfers affected after the call payment date.	BAD
67.	If the final call is endorsed but the initial or the initial and the second call not endorsed. (i.e. if marked "FULLY PAID").	GOOD
68.	In case of fully convertible debentures, after the debentures have been converted into equity, if the call money endorsement has been done only for the equity portion and not for the debenture portion.	GOOD
69.	Call paid endorsements made by the Company with the call amount, date of payment and signature of the Authorised Signatory <u>with or without</u> the Rubber Stamp of the Company.	GOOD
70.	In the case of partly paid shares, when a call has been made but not paid and delivery effected during the period of ten days before the last date fixed for payment.  If the call receipts are attached to the documents.	BAD  GOOD
71.	Application Receipts and Call money receipts not bearing bank stamps and payment details.	BAD
72.	Any significant correction, erasure, overwriting, crossing out or alteration in the quantity of shares, in the last registered holders name or in any material particulars on the share certificate.  Unless the Authorised Signatory who has signed on the certificate, authenticates the correction Or the correction is initialed and authenticated by any other officer under the Company's rubber stamp.	BAD  GOOD
73.	Certificates badly torn as is not to be in deliverable condition or share	BAD

	certificate torn through and through or badly torn as to obliterate or render illegible or create the impression of cancelling the numbers or directors or other signature or the date or any other particulars or if it is written upon or damaged or mutilated by advertisements, printing, rubber stamp or otherwise or if a material part of the certificate be torn out or cut off.	
74.	Share certificates defaced or mutilated in portion: The following will be considered as material portion in the case of share certificate: <ul style="list-style-type: none"> <li>(i) Share certificate torn end to end and pasted with transparent self-adhesive tape.</li> <li>(ii) Where shares have been transferred to a new holder and if torn at the original holders name portion.</li> <li>(iii) Folio number and name overwritten in one or two characters and not authenticated by the authorised signatory.</li> <li>(iv) If the share certificate is torn at the company name portion but is decipherable.</li> <li>(v) Corrections in transfer Number or Date of transfers, if legible and not authenticated.</li> <li>(vi) Share Certificates with bar codes not concealing any material information.</li> </ul>	BAD BAD GOOD GOOD GOOD GOOD GOOD GOOD
75.	If the name of the Company has been disfigured in the body of the share certificate so as to affect it materially. If the name of the company is identifiable.	BAD  GOOD
76.	Certificates in the case of UNITS discharged by the transferor for purpose of repurchase and then cancelled by him and initialled.	BAD
77.	Share certificate contains one name but the transfer deed consists of two signatures. If both the signatures on the transfer deed are identical in nature or can be identified as signature of the same person. If the transferor has signed twice but has struck off the 2 <sup>nd</sup> signature.	BAD  GOOD
78.	Share certificate contains name of one transferor but transfer deed contains two names and signature respectively.	BAD
79.	Preferential / promoters quota shares under lock-in period delivered which are not transferable.	BAD
80.	Share certificate issued without the signature of Secretary / Authorised signatory.  If the shares are transferred subsequently and the authorised signatory has signed against such transfer.	BAD  GOOD
81.	Signature missing in the initial column but signed by Authorised signatory in the required column on the reverse of the certificate.	GOOD

82.	Endorsement effected on the reverse of the certificate and struck off and again endorsed.	GOOD subject to proper authentication by the Company by putting a round stamp of the Company.
83.	Certificate with company's old registered office crossed out and new address stamped without authentication.	GOOD
84.	Certificate without mentioning the place of issue.	GOOD
85.	Revenue stamp affixed on the certificate concealing any material portion of the certificate. Provided any material portion like lock-in period date, NRI details are not affected.	GOOD
86.	Revenue stamps affixed / impressed by the Company on the share certificate has come off.	GOOD
87.	Any alteration or erasure or correction without initials in the transfer endorsement on the back of the share certificate as for example made in the year 1960 and subsequently the shares have again been transferred by the Company, say in 1961.	GOOD
88.	Share certificates with irrelevant or extraneous rubber stamp or writings on the scrip. Provided the rubber stamp or the writings does not affect any material portion of the scrip.	GOOD
89.	Increase or decrease of the Capital and if the certificate does not carry the endorsement on the face of the certificate.	GOOD
90.	Absence of holder's discharge on the Letter of Allotment.	GOOD
91.	Share Certificate and Transfer Deed not attached together.	BAD
92.	Shares standing in the name of Non-Resident Individuals. Provided the declaration stamp as per the RBI guideline is affixed and countersigned by the introducing member.	GOOD
93.	Name of the holder printed in two lines which looks like joint holding or one line of address printed and looking like second holder.	GOOD
94.	Lock in period mentioned in the certificate, without specific date of release of lock in.	BAD
95.	Shares issued in the name of Sole Proprietor / Partnership firm signed by the Proprietor / Partner.	BAD

	Units / debentures issued in the name of Sole Proprietor / partnership firm signed by the Proprietor / partner.	
96.	In case the shares of a company are not pari passu with the existing equity shares of the company in two financial years then new share dividend declared for the previous year i.e. the old new compensatory value (ONCV) for two years has to be paid. The full dividend declared will have to be paid (interim + final).	GOOD

### 10.3 Miscellaneous

No.	Description
97	Validity period of Company Objection by the last buying broker to be notified to the Exchange/ Introducing Broker is 12 months from the date of the objection memo. In all other pending cases of company objections bearing a date prior to July 16, 1996, the validity period will be as per rules - of the respective exchanges - as existing prior to July 16, 1996.
98	Objections must be accompanied with Share Certificates.
99	Shares lodged for transfer after book closure (but before one year from the date of date stamping the transfer deed) are returned under objection can be lodged as company objection.
100	Where the shares have been duly transferred by the company in the name of the transferee, and thereafter the company sends a letter informing transferee that the shares have been transferred based on fraudulent documents, such cases <u>can be</u> lodged as company objection subject to the following conditions and procedure : <ul style="list-style-type: none"> <li>• In cases where the company has transferred certificates which are fake and later sends a letter informing that the shares have been transferred on fraudulent certificates, such cases will NOT be treated as company objections and the company will be responsible for the transfer.</li> <li>• In cases where the shares are under stop transfer, stay order, non-transferable (lock-in period) or shares are partly paid and the company has transferred the shares and later sends a letter informing that the shares have been transferred on fraudulent documents, such cases will NOT be treated as company objections and the company will be responsible for the transfer.</li> <li>• In cases where the certificates are genuine but the transfer deed is forged (i.e. the company has transferred the shares in good faith) the shares can be accepted as company objection. In such cases the company should necessarily enclose the copies of both sides of the transfer deeds based on which shares were transferred by the company in favor of the holder and which later on</li> </ul>

	<p>has been found to be based on forged documents, and all subsequent transfers thereafter along with the objection.</p> <p><b>Procedure :</b>          (In order to simplify the understanding of the procedure, the following illustration has been used:</p> <p style="text-align: center;"><u>A</u> ---&gt; <u>B</u> ---&gt; <u>C</u> ---&gt; <u>D</u> ---&gt; <u>X</u> ---&gt; <u>Y</u> ---&gt; <u>Z</u></p> <p>The shares were first sold through 'A' in the market. After passing through 'B' and 'C' the shares were lodged by 'D' to the company for transfer. After receiving the shares duly transferred from the company in his name 'D' sold the shares in the market. These shares after passing through 'X' and 'Y' are finally sent by 'Z' to the company for transfer in his/her name. After receiving the shares from the company duly transferred in his name, 'Z' has received a letter from the company stating that the shares transferred in the name of 'D' were based on fraudulent documents.</p> <ul style="list-style-type: none"> <li>• 'Z' will report the objection along with the company objection against 'D'.</li> <li>• 'D' will rectify/replace the shares within 21 days as per the BDC procedures.</li> <li>• 'D' may in turn lodge the bad delivery for rectification through the BDC against 'A'.</li> </ul> <p>The validity period of reporting such cases will be 36 months from the date of latest transfer by the company (in the above example 36 months from the date the shares were transferred in the name of 'Z').</p> <p>The company will also furnish copies of both sides of transfer deed based on which shares were transferred in favor of 'Z' and 'D' along with the objection memo.</p>
101	<p>In case of joint holding, and in event of death of any of the holders, transfer can take place on the basis of death certificate accompanying the transfer deed only for a period of two years from the date of the death or ensuing book closure, whichever is later.</p> <p><u>The Introducing member of a recognised stock exchange may certify/attest copy of the death certificate and also issue an identity certificate in case where the name of the deceased on the share certificate is not identical with the name on the death certificate - GOOD</u></p>
102	<p>While rectifying objections due to signature differences, a fresh signature by the transferor (if the same transfer deed is re-submitted) alongwith attestation is mandatory. Fresh transfer deed is mandatory if objection is rectified after book closure date.</p>
103	<p>In case Rights/Bonus shares tendered as corporate benefits are reported as bad delivery, if it is odd lot, the value of shares based on the rate prevalent on the day</p>

	of reporting bad delivery will be paid.
104	Rectification/replacement of transfer deed under objection should be in market lot only (even if transfer deed under objection is submitted in non-market lot).
105	If Jumbo transfer deed is submitted as company objection, original transfer deeds need not be returned by the receiving member.
106	When documents are returned under signature difference, the transfer deed can be attested by the introducing member. If the introducing member is a corporate, the Director or authorised signatory can attest the transfer deed, under his company's stamp, with SEBI Registration Number.
107	For reporting as company objections, the transferee portion of the transfer deed should be duly filled in.
108	For reporting as company objection, the following documents are required: A. If they are returned as objection from the company due to the above reason: <ul style="list-style-type: none"> <li>. company objection memo stating that the shares are fake/ forged</li> <li>. copies of both sides of the transfer deeds</li> <li>. copies of both sides of the share certificates</li> </ul> B. Otherwise one of the following documents are required: <ul style="list-style-type: none"> <li>. public notice given by the company/registrar</li> <li>. notification from any stock exchange</li> <li>. letter of intimation from the company to stock exchange.</li> </ul>
109	For reporting missing/lost/stolen shares as objection the following documents are required : A. If they are returned as objection from the company due to above reason: <ul style="list-style-type: none"> <li>• company objection memo stating that the shares are missing/lost/ stolen accompanied by a copy of Court Order or FIR or copy of acknowledged police complaint</li> <li>• copies of both sides of the transfer deeds</li> <li>• copies of both sides of the share certificates</li> </ul> B. Otherwise one of the following documents are required : <ul style="list-style-type: none"> <li>• public notice given by the company /registrar</li> <li>• notification from any stock exchange</li> <li>• letter of intimation from the company to stock exchange</li> </ul> <p><u>In cases where duplicate shares have been issued to a third party under the provisions of section 108 (1) A of the Companies Act, the company should also provide the name and address of the third party to whom the duplicate shares have been issued along with the date of request for duplicate shares by the third party.</u></p>

110	Attestation is required where signature of transferor is in an Indian language other than the Scheduled languages in India or when the transferor has affixed his thumb impression (guideline no. 7) In other cases, attestation is compulsory only when shares come under objection due to signature difference. Hence, guideline Nos. 28, 29, 30, 31 & 32 apply only to transfer deeds which come under objection due to signature difference.
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Note:-

Text in **BOLD** has been amended vide circular dated August 19, 1996

Text in *Italics* has been amended vide circular dated April 16, 1997

Text underlined has been amended vide circular dated October 09, 1997.

#### **10.4 Clarification with regard to 97 and 100 of the Norms for G/B Norms<sup>34</sup>**

It has come to the notice of SEBI that there is a conflicting interpretation of clause 97 and clause 100 of uniform norms for Good/Bad delivery with respect to validity period of company objection memos. Keeping in view the above and as discussed with representatives of the Stock Exchanges, in such cases the provisions of clause 97 will prevail.

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<sup>34</sup> Circular No. SMDRP/POLICY/CIR-42/2001 dated August 10, 2001

**SECTION 11 - Abolition of no-delivery period for all types of corporate actions<sup>35</sup>**

- 11.1 Pursuant to the recommendations made by the Secondary Market Advisory Committee of SEBI at its meeting held on June 30, 2009, it is decided to do away with 'no-delivery period' for all types of corporate actions in respect of the scrips which are traded in the compulsory dematerialized mode and accordingly, short deliveries, if any, of the shares traded on cum-basis may be directly closed out. In case of such direct close-out, the mark-up price would be as stated in SEBI circular no. SMD/POLICY/Cir-08/2002 dated April 16, 2002.
- 11.2 The aforesaid will come into effect from August 1, 2009, and accordingly will apply to all corporate actions for which the record date / book closure falls on or after August 10, 2009.

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<sup>35</sup> Circular No. MRD/DoP/SE/Cir-07/2009 dated July 21, 2009

### REFERENCE - List of Circulars

1. Ref. No. SE/10118 dated October 12, 1992.
2. Ref. SMD-I/22532 dated October 19, 1993.
3. Ref. SMD/6059 dated October 17, 1994.
4. Circular No. SMD/RCG/2796/96 dated July 16, 1996.
5. Circular No. SMD/Policy/IECG/5548/96 dated December 09, 1996.
6. Circular No. SMD/POLICY/CIR/7-97 dated April 16, 1997.
7. Circular No. SMD/POLICY/SUB BROKER/CIR-12/97 dated June 2 1997.
8. Circular No. SMD/POLICY/SGF/CIR-13/97 dated June 09, 1997.
9. Circular No. SMD/POLICY/GBDN/CIR-25/97 dated October 09, 1997.
10. Circular No. SMD/Policy/Cir-32/97 dated December 03, 1997.
11. Circular No. SMD/Policy/Cir-10/99 dated May 04, 1999.
12. Circular No. SMD/DBA-1/SS/Policy/Cir-34/2000 dated August 2, 2000.
13. Circular No. SMDRP/Policy/Cir-05/2001 dated February 01, 2001.
14. Circular No. SMDRP/POLICY/CIR -16/2001 dated March 9, 2001.
15. Circular No. SMDRP/POLICY/CIR-42/2001 dated August 10, 2001.
16. Circular No. SMDRPD/Policy/Cir-43/2001 dated August 20, 2001.
17. Circular No. SMDRP/POLICY/CIR-46/2001 dated September 27, 2001.
18. Circular No. SMD/Policy/Cir-08/2002 dated April 16, 2002.
19. Circular No. SMD/Policy/Cir-15/2002 dated June 26, 2002.
20. Circular No. SMD/Policy/Cir-21/02 dated September 04, 2002.
21. Circular No. SMD/POLICY/Cir - /03 dated February 6, 2003.
22. Circular No. SEBI/SMD/SE/21 /2003/05/06 dated June 5, 2003.
23. Circular No. SEBI/SMD/SE/Cir-26/2003/25/06 dated June 25, 2003.
24. Circular No. SEBI/MRD/SE/Cir- 33/2003/27/08 dated August 27, 2003.
25. Circular No. SEBI/MRD/SE/SU/Cir-15/04 dated March 19, 2004.
26. Circular No. SEBI/MRD/Policy/AT/Cir- 19/2004 dated April 21, 2004.
27. Circular No. MRD/DoP/SE/Dep/Cir-30/2004 dated August 24, 2004.
28. Circular No. MRD/DoP/SE/Cir-38/2004 dated October 28, 2004.
29. Circular No. MRD/DoP/SE/Cir- 17/2005 dated September 2, 2005.
30. Circular No. MRD/Dop/SE/Dep/Cir-18/2005 dated September 02, 2005.
31. Circular No. MRD/DoP/SE/Cir-21/2006 dated December 14, 2006.
32. Circular No. MRD/DoP/SE/Cir-07/2009 datad July 21, 2009.
33. Circular No CIR/MRD/DP/ 39 /2010 dated December 28, 2010.
34. Circular No. CIR/MRD/DP/06/2011 dated June 16, 2011.