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SECURITIES AND EXCHANGE BOARD OF INDIA

NOTIFICATION

Mumbai, the 3rd October, 2018

**SECURITIES CONTRACTS (REGULATION) (STOCK EXCHANGES AND CLEARING
CORPORATIONS) REGULATIONS, 2018**

No. SEBI/LAD-NRO/GN/2018/41.- In exercise of the powers conferred by sections 4, 8A and 31 of the Securities Contracts (Regulation) Act, 1956, read with sections 11 and 30 of the Securities and Exchange Board of India Act, 1992, the Securities and Exchange Board of India hereby makes the following regulations to regulate recognition, ownership and governance in stock exchanges and clearing corporations and matters connected therewith or incidental thereto, namely:—

CHAPTER I

PRELIMINARY

Short title and commencement

- 1.** (1) These regulations may be called the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018.
- (2) They shall come into force on the date of their notification in the Gazette of India.

Definitions

- 2.** (1) In these regulations, unless the context otherwise requires, the terms defined herein shall bear the meanings assigned to them below, and their cognate expressions shall be construed accordingly,-
 - (a) "Act" means the Securities Contracts (Regulation) Act, 1956 (42 of 1956);
 - (b) "associate" in relation to a person shall include another person:

- (3) No person resident outside India shall, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than five per cent of the paid up equity share capital in a recognised clearing corporation.

Provided that,-

- (a) a foreign stock exchange;
- (b) a foreign depository;
- (c) a foreign banking company;
- (d) a foreign insurance company;
- (e) a foreign commodity derivatives exchange; and
- (f) a bilateral or multilateral financial institution approved by the Central Government,

may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, upto fifteen per cent of the paid up equity share capital of a recognized clearing corporation.

Explanation.—For the purposes of this proviso, the persons referred to in clauses (a) to (f) shall mean persons recognised/ incorporated outside India.

- (4) Subject to the limits as otherwise prescribed by the Central Government from time to time, the combined holding of all persons resident outside India in the paid up equity share capital of a recognised clearing corporation shall not exceed, at any time, forty-nine per cent of its total paid up equity share capital.

Eligibility for acquiring or holding shares

- 19.** (1) No person shall, directly or indirectly, acquire or hold any equity shares or voting rights of a recognised stock exchange or recognized clearing corporation unless he is a fit and proper person:

Provided that the onus shall be on the recognised stock exchange/ recognised clearing corporation to ensure that all its shareholders are fit and proper persons:

Provided further that such a requirement to ensure that all its shareholders are fit and proper persons shall not be applicable to a ¹⁷[***] recognized stock exchange for shareholding of a person who directly or indirectly, acquires or holds less than two percent equity shares or voting rights of such ¹⁸[***] recognized stock exchange.

- (2) ¹⁹[***]

¹⁷ The word “listed” omitted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Second Amendment) Regulations, 2021 w.e.f. 13.08.2021.

¹⁸ *Ibid.*

¹⁹ Omitted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Second Amendment) Regulations, 2021 w.e.f. 13.08.2021. Prior to its omission, it reads as –

“(2) Any person who acquires equity shares or voting rights, in a recognised stock exchange or recognized clearing corporation, directly or indirectly, either individually or together with persons acting in concert, that entitles the person(s) so acquiring to exercise any voting rights in the range of two percent to five per cent, shall seek approval of the Board within fifteen days of such acquisition.”

- (3) A person eligible to acquire or hold more than five per cent of the paid up equity share capital under sub-regulation (2) and (3) of regulation 17 and sub-regulation (2) and (3) of regulation 18 may acquire or hold more than five per cent of the paid up equity share capital of a recognised stock exchange or a recognised clearing corporation only if he has obtained prior approval of the Board.
- (4) The application for seeking approval in terms of ²⁰*** sub-regulation (3) of this regulation shall be made to the Board in the manner specified at PART –F of Schedule – II of these regulations through the concerned stock exchange / clearing corporation.
- (5) The stock exchange / clearing corporation shall verify the declarations/ undertakings given by the shareholders under sub-regulation (4) and forward the application along with its recommendation for approval to the Board.
- (6) ²¹***
- (7) Any person holding two per cent. or more of the paid up equity share capital in a recognised stock exchange or a recognised clearing corporation, as the case may be, shall file a declaration within fifteen days from the end of every financial year to the recognised stock exchange or recognised clearing corporation, as the case may be, that he complies with the fit and proper criteria provided in these regulations.

Monitoring of shareholding limits

19A. The recognised stock exchange / recognised clearing corporation shall put in place a monitoring mechanism as specified in Part G of Schedule – II of these regulations to ensure compliance with the shareholding conditions specified in these regulations at all times.

Requirement and criteria of fit and proper

- 20.** (1) The recognised stock exchange/ recognised clearing corporation shall ensure that all its directors and key management personnel are fit and proper persons at all times.
- (2) For the purposes of these regulations, a person shall be deemed to be a fit and proper person if—
- (a) such person has a general reputation and record of fairness and integrity, including but not limited to—
 - (i) financial integrity;
 - (ii) good reputation and character; and
 - (iii) honesty;

²⁰ The words “sub-regulation (2) or” omitted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Second Amendment) Regulations, 2021 w.e.f. 13.08.2021.

²¹ Omitted by the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) (Second Amendment) Regulations, 2021 w.e.f. 13.08.2021. Prior to its omission, it reads as –

“(6) If approval under sub-regulation (2) is not granted by the Board to any person, such person shall forthwith divest his entire shareholding in the recognised stock exchange / recognised clearing corporation.”

- (b) such person has not incurred any of the following disqualifications—
 - (i) the person or any of its whole time directors or managing partners, has been convicted by a court for any offence involving moral turpitude or any economic offence or any offence against the securities laws;
 - (ii) an order for winding up has been passed against the person;
 - (iii) the person, or any of its whole time directors or managing partners, has been declared insolvent and has not been discharged;
 - (iv) an order, restraining, prohibiting or debarring the person or any of its whole time directors or managing partners, from dealing in securities or from accessing the securities market, has been passed by the Board or any other regulatory authority and a period of three years from the date of the expiry of the period specified in the order has not elapsed;
 - (v) any other order against the person, or any of its whole time directors or managing partners, which has a bearing on the securities market, has been passed by the Board or any other regulatory authority, and a period of three years from the date of the order has not elapsed;
 - (vi) the Board has initiated recovery proceedings under the SEBI Act, 1992 and are pending;
 - (vii) the person has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force;
 - (viii) the person is financially not sound or has been categorized as a willful defaulter; and
 - (ix) any other disqualification as specified by the Board.
- (3) If any question arises on the decision of a recognised stock exchange or recognized clearing corporation as to whether a person is a fit and proper person, the Board's decision on such question shall be final.

Disclosure of shareholding

- 21.** (1) Without prejudice to the provisions of the Act, rules and these regulations, the recognised stock exchange(s) and the recognised clearing corporation(s) shall disclose to the Board, in the format specified by the Board, their shareholding pattern on a quarterly basis within fifteen days from the end of each quarter, including therein the following: —
- (a) the names of the ten largest shareholders along with the number and percentage of shares held by them;
 - (b) the names of the shareholders falling under regulations 17 and 18 who had acquired shares in that quarter.