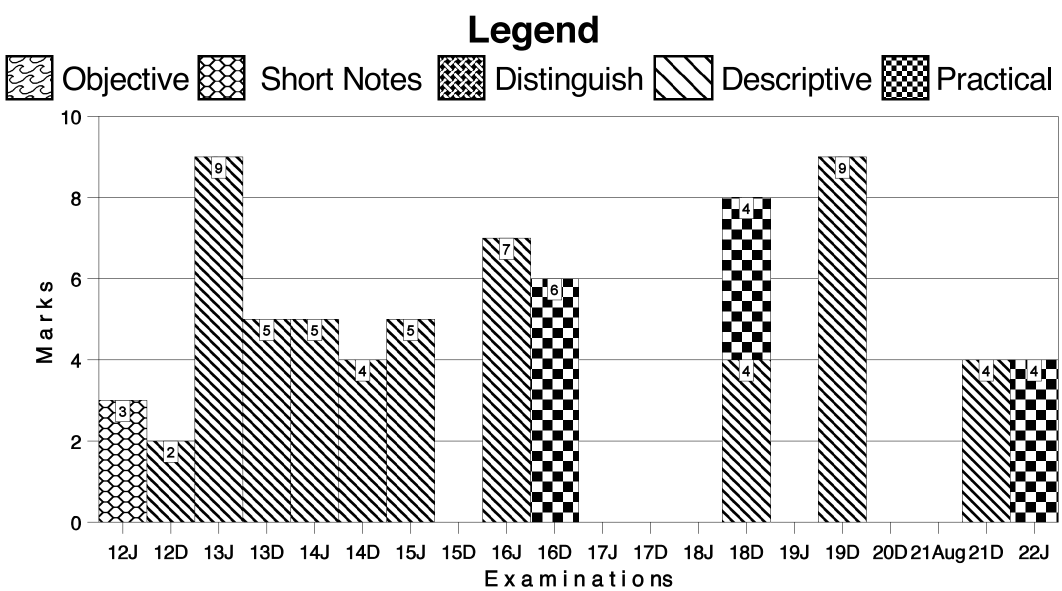
1 SECURITIES CONTRACTS (REGULATION) ACT, 1956

THIS CHAPTER INCLUDES

- Securities Contracts (Regulation) Act, 1956
- Punishment for contraventions
- Recognized Stock Exchange
- Clearing Corporation
- Penalties
- Certain offences to be cognizable
- Public issue and listing of securities
- Crediting sum realised by way of penalties to consolidated fund of India
- Securities Contracts (Regulation) Rules, 1957

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



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CHAPTER AT A GLANCE

Objects of the Act

The Securities Contracts (Regulation) Act, 1956 was enacted by Parliament to prevent undesirable transactions in securities by regulating the business of dealing therein, and by providing for certain other matters connected therewith.

This Act gives power to CG for regulating:

(a) Stock exchanges through a process of recognition and continued supervision,

(b) contracts in securities, and

(c) listing of securities on stock exchanges.

Stock Exchange [Sec. 2(j)]

Stock Exchange means:

(a) any body of individuals, whether incorporated or not, constituted before corporatisation and demutualisation under Sections 4A and 4B,

or

(b) a body corporate incorporated under the Companies Act, 2013 whether under a scheme of corporatization or otherwise, for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.

Spot delivery contract [Sec. 2(i)]
Spot delivery contract means a contract which provides for: (a) actual delivery of securities and the payment of a price therefore either on the same day as the date of the contract or on the **next day**, (b) transfer of the securities by the depository from the account of a beneficial owner to the account of another beneficial owner when such securities are dealt with by a depository.
Derivative [Sec. 2(ac)]
A derivative includes – (a) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security and; (b) a contract which derives its value from the prices or index of prices, of underlying securities; (c) commodity derivatives; and (d) such other instruments as may be declared by the Central Government to be derivatives.
Corporatisation and Demutulisation
(I) Corporatization [Sec. 2(aa)]: • It means the succession of a recognised stock exchange, being a body of individuals or a society registered under the Societies Registration Act, 1860 • by another stock exchange , being a company incorporated for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities carried on by such individuals or society. **(II) Demutualisation [Sec. 2(ab)]:** It means the segregation of ownership and management from the trading rights of the members of a RSE in accordance with a scheme approved by the SEBI.

Recognition of Stock Exchange [Sec.3]
Section 3 lays down that any stock exchange, desirous of being recognized for the purposes of this Act may make an application in the prescribed manner to the Central Government. Every application shall contain such particulars as may be prescribed, and shall be accompanied by a copy of the bye-laws of the stock exchange for the regulation and control of contracts and also a copy of the rules relating in general to the constitution of the stock exchange and in particular to– (a) The governing body of such stock exchange, its constitution and powers of management and the manner in which its business is to be transacted; (b) The powers and duties of the office bearers of the stock exchange; (c) The admission into the stock exchange of various classes of members, the qualifications, for membership, and the exclusion, suspension, expulsion and re-admission of members therefrom or there into; (d) The procedure for the registration of partnerships as members of the stock exchange in cases where the rules provide for such membership; and the nomination and appointment of authorized representatives and clerks
Withdrawal of Recognition of stock exchange [sec.5]
In the public /Trade interest recognition to be withdrawn • Shall serve a notice on the Governing body • State the reasons for withdrawal • Give an opportunity of being heard • Upon withdrawal Notify in the Official Gazette.
Various powers of CG
To call for periodical returns and make direct enquiries [Section 6] To direct rules or make rules [Section 8] To Supersede Companies of Stock Exchanges [Section 11] To Suspend Business of Recognised Stock Exchange [Section 12]

To Issue Directions [Section 12A]
To prohibit contracts in certain cases [Section 16]
To grant Immunity [Section 23 - O]
To delegate or to make rules [Section 29A]

Power of RSE make Rules restricting Voting Rights etc. [Sec. 7A]

Section 7A of the Act stipulates that a recognised stock exchange may make rules or amend any rules made by it to provide for all or any of the following matters, namely –

(a) the restriction of voting rights to members only in respect of any matter placed before the stock exchange at any meeting;
(b) the regulation of voting rights in respect of any matter placed before the stock exchange at any meeting so that each member may be entitled to have one vote only, irrespective of his share of the paid-up equity capital of the stock exchange;
(c) the restriction on the right of a member to appoint another person as his proxy to attend and vote at a meeting of the stock exchange; and
(d) such incidental, consequential and supplementary matters as may be necessary to give effect to any of the matters specified in clauses (a) (b) and (c).

Powers have been delegated concurrently to SEBI also.

Clearing Corporation [Section 8A]

- A recognised stock exchange may, with the prior approval of SEBI may establish a Clearing Corporation.
- Functions of Clearing Corporation includes:
  (a) the periodical settlement of contracts and differences thereunder;
  (b) the delivery of, and payment for, securities;
  (c) any other matter incidental to, or connected with, such transfer.

Conditions For Listing

Section 21 of the Act provides that where securities are listed on the application of any person in any recognised stock exchange, such person shall comply with the conditions of the listing agreement with that stock

exchange.
Condition for continuous listing [Rule 19A of Securities Contract (Regulations) Rules, 1957]
• Every listed company other than Public Sector Company shall maintain public shareholding of at least 25%. • However, any listed company which has public shareholding below 25%, shall increase its public shareholding to at least 25%, within a maximum period of 2 years from the date of such fall in the manner specified by SEBI.
Right to appeal to SAT, against Refusal
The listed company and any person aggrieved by order of RSE, may file an appeal before SAT • against the decision of RSE for de- listing the shares • Within 15 days from decision • Sections 22 B to 22 E shall apply.
Establishment of Special Courts [Sec. 26A]
(a) The Central Government may, for the purpose of providing speedy trial of offences under this Act, by notification, establish or designate as many Special Courts as may be necessary. (b) A Special Court shall consist of a single judge who shall be appointed by the Central Government with the concurrence of the Chief Justice of the High Court within whose jurisdiction the judge to be appointed is working. (c) A person shall not be qualified for appointment as a judge of a Special Court unless he is, immediately before such appointment, holding the office of a Sessions Judge or an Additional Sessions Judge, as the case may be.

SHORT NOTES

2012 - June [2] (a) Write a short note on following:

(i) Spot delivery contract **(3 marks)**

Answer :

Spot delivery contract mean a contract which provides for:

(a) Actual delivery of securities and the payment of a price therefore either on the same day as the date of the contract or on the next day, the actual period taken for the dispatch of the securities or the remittance of money therefore through the post being excluded from the computation of the period aforesaid if the parties to the contract do not reside in the same town or locality;

(b) Transfer of the securities by the depository from the account of a beneficial owner to the account of another beneficial owner when such securities are dealt with by a depository [Sec. 2(i)].

—— Space to write important points for revision ——

DESCRIPTIVE QUESTIONS

2012 - Dec [3] (b) Comment briefly on the following statement:

(iii) "Stock exchanges are virtually the nerve centre of the capital market."

(2 marks)

Answer :

Stock Exchange represent the market place for buying and selling of securities and ensuring liquidity to them in the interest of investors. The stock exchanges are virtually the nerve centre of the capital market and reflect the health of the country's economy as a whole.

—— Space to write important points for revision ——

2013 - June [4] (b) Explain briefly the following terms associated with stock market.

(ii) Multiple listing

(iii) Clearing

(iv) Circuit breaker. **(3 marks each)**

Answer:

(ii) **Multiple Listing**

SEBI (ICDR) Regulations, 2018 provides that in case of an initial public offer, the company is required to make an application for listing of the specified securities in at least one recognized stock exchange having nationwide trading terminals. Further, it can make an application to one or more recognized stock exchanges for listing of specified securities on such stock exchanges and choose one of them as the designated stock exchange. Thus, a company can list its securities is more than one stock exchange. This is multiple listing.

(iii) **Clearing**

Clearing is the process that happens between execution and settlement. The clearing process involves determination of what counter-parties owe, and which counter- parties are due to receive on the settlement date, thereafter the obligations are discharged by settlement. Several entities, like the clearing corporation, clearing members, custodians, clearing banks, depositories are involved in the process of clearing. NSCCL and ICCL are the clearing corporations of NSE and BSE respectively.

(iv) **Circuit Breaker**

Circuit Breakers or price limits are imposed to control volatility in the price movements' vis-a-vis prescribed daily and weekly limit for every stock. The daily price limit is checked against the stocks closing price in the previous trading session. The weekly price limit of stock depends on its closing price on the last trading day in the previous week. The circuit breakers are applicable at three stages of the index movement either way at 10%, 15% and 20%. The market wide circuit breakers can be triggered by movement of either BSE SENSEX or the NSE NIFTY, whichever is breached earlier.

2013 - Dec [6] (c) Briefly explain the provisions relating to continuous listing requirements as enshrined under the Securities Contracts (Regulation) Rules, 1957. **(5 marks)**

Answer:

The provisions relating to continuous listing requirements as given in Rule 19A of Securities Contracts (Regulation) Rules, 1957 as amended from time to time, are as follows:

(I) Mandatory maintenance [Rule 19A(1)]: Every listed company other than public sector company shall maintain public shareholding of at least 25%.

"Provided that every listed public sector company which has public shareholding below 25% on the commencement of the Securities Contracts (Regulation)(Second Amendment) Rules, 2018, shall increase its public shareholding to at least 25%, within a period of 2 years from the date of such commencement, in the manner specified by the Securities and Exchange Board of India.

(II) Time limit for maintaining public shareholding [Rule 19A(2)]: Where the public shareholding in a listed company falls below 25% at any time, such company shall bring the public shareholding to 25%within a maximum period of 2 years from the date of such fall in the manner specified by the SEBI.

"Provided that every listed public sector company whose public shareholding falls below 25%at any time after the commencement of the Securities Contracts (Regulation) (Second Amendment) Rules, 2018, shall increase its public shareholding to at 25%, within a period of 2 years from such fall, in the manner specified by the Securities and Exchange Board of India."

(III) Time limit for maintaining public shareholding falling due to Depository Receipt scheme etc: [Rule 19A(4)]: Where the public shareholding in a listed company falls below 25%in consequence to the Securities Contracts (Regulation) (Amendment) Rules, 2015, such company shall increase its public shareholding to at least 25% in the manner specified by the Securities and Exchange Board of India SEBI within a period of 3 years, as the case may be, from the date of notification of:

(a) the Depository Receipts Scheme, 2014 in cases where the public shareholding falls below 25% as a result of such scheme;

(b) the SEBI (Share Based Employee Benefits) Regulations, 2014 in cases where the public shareholding falls below 25%, as a result of such regulations.

(IV) Time limit for maintaining public shareholding falling due to Resolution Plan: [Rule 19A(5)]: Where the public shareholding in a listed company falls below 25%, as a result of implementation of the resolution plan approved under section 31 of the Insolvency and Bankruptcy Code, 2016, such company shall bring the public shareholding to 25% within a maximum period of 3 years from the date of such fall, in the manner specified by the SEBI:

Provided that, if the public shareholding falls below 10%, the same shall be increased to at least 10%, within a maximum period of 18 months from the date of such fall, in the manner specified by the Securities and Exchange Board of India.

(v) Exemption in Public – Interest [Rule 19A(6)]: The CG may, in the public interest, exempt any listed public sector company from any or all of the provisions of the sub-rules (1) to (5).

—— Space to write important points for revision ——

2014 - June [5] Critically comment on the following statement :

(a) “Derivatives are contracts which derive their value from the value of one or more of other assets.” **(5 marks)**

Answer:

The statement is correct and it highlights the basic nature of derivative contract. Derivative can be defined as a contract, whose value depends upon one or more other assets i.e. called underlying assets. Here underlying assets may be anything, ranging from commodity to a stock market Index.

Derivatives can also be defined as a security derived from a debt instrument, shares, loans, whether secured or unsecured, risk instrument or contract for differences or any other form of security.

Presently, there are four types of derivatives, which are commonly traded i.e. futures, forward, options and Swaps.

Derivatives work as a temporary facility for hedging of price risk of inventory holding or a financial/ commercial transaction over a certain period. It adds liquidity but the gain of one person result into loss of another person, so it is also called zero – sum game.

—— Space to write important points for revision ——

2014 - Dec [6A] (Or) (ii) Write a note on the following:

(a) Spot delivery contract **(4 marks)**

Answer :

The term 'Spot delivery contract' is defined under **Section 2(i) of Securities Contract (Regulations) Act, 1956**. Accordingly, Spot delivery contract' means a contract which provides for:

- actual delivery of securities and the payment of a price thereof either on the same day as the date of the contract or on the next day, the actual period taken for the dispatch of the securities or the remittance of money therefore through the post being excluded from the computation of the period aforesaid if the parties to the contract do not reside in the same town or locality;
- transfer of the securities by the depository from the account of a beneficial owner to the account of another beneficial owner when such securities are dealt with by a depository.

—— Space to write important points for revision ——

2015 - June [3] (b) What is meant by demutualisation of stock exchange? Explain the purpose of demutualisation. **(5 marks)**

Answer:

(i) Meaning of Demutualization:
It means a process of conversion of a stock-exchange from a "Mutually Owned" association to a company "Owned by shareholders". Simply, in demutualization, there is change into legal-structure of an exchange i.e. from a mutual form to a business-corporation form.

(ii) Purpose of Demutualization: The purposes of demutualisation are as follows:

(i) Stock exchanges owned by members tend to work towards the interest of members alone, which could on occasion be detrimental to rights of other stakeholders. Division of ownership between members and outsiders can lead to a balanced approach, remove conflicts of interest, create greater management accountability.

(ii) Publicly owned stock exchanges can enter into capital market for expansion of business.

(iii) Publicly owned stock exchange would be more professionally managed than broker owned.

(iv) Demutualisation enhances the flexibility of management.

—— Space to write important points for revision ——

2016 - June [3] (b) Explain briefly the demutualisation of stock exchanges. **(3 marks)**

Answer:

(i) **Definition of Demutualisation:** It means the segregation of ownership and management from the trading rights of members of a recognised stock exchange in accordance with the scheme approved by the SEBI.

(ii) **Scheme of Demutualisation:** SEBI issued scheme of demutualization to BSE and other Regional Stock Exchanges. The important features of the demutualisation exercise are as follows :

1. The board of a stock exchange should consist of 75% public interest/ shareholder directors and only 25% broker directors, and
2. 51% shareholding of the stock exchange should be divested to public/ investors other than trading member brokers and only 49% of shareholding can remain with the trading member brokers. This will transform our broker-owned stock exchanges into professionally-run corporate stock exchanges.

The options prescribed for divestment/dilution of brokers' shareholding in a stock exchange are as follows:

1. Offer for sale, by issue of prospectus of shares held by trading member brokers.
2. Private placement of shares (either of the shares held by the member brokers or new shares by the exchange) to any person or

group of persons subject to the prior approval of SEBI and the maximum limit of 5% to any single person/group of persons.

3. Fresh issue of shares to the public through an IPO.

(iii) **Purpose of Demutualisation:** The purpose of demutualisation is as follows:

1. Stock exchanges owned by members tend to work towards the interest of members alone, which could on occasion be detrimental to rights of other stakeholders. Division of ownership between members and outsiders can lead to a balanced approach, remove conflicts of interest, create greater management accountability.
2. Publicly owned stock exchanges can enter into capital market for expansion of business.
3. Publicly owned stock exchange would be more professionally managed than broker owned.
4. Demutualisation enhances the flexibility of management.

—— Space to write important points for revision ——

2016 - June [6] (a) Comment on the following:

(ii) The recognised stock exchange has powers to make rules for restricting voting rights. **(4 marks)**

Answer:

Section 7A of the Securities Contract (Regulations) Act, 1956 provides that a recognised stock exchange may make rules or amend any rules made by it to provide for all or any of the following matters, namely:

(a) the restriction of voting rights to members only in respect of any matter placed before the stock exchange at any meeting;

(b) the regulation of voting rights in respect of any matter placed before the stock exchange at any meeting so that each member may be entitled to have one vote only, irrespective of his share of the paid-up equity capital of the stock exchange;

(c) the restriction on the right of a member to appoint another person as his proxy to attend and vote at a meeting of the stock exchange; and

(d) such incidental, consequential and supplementary matters as may be necessary to give effect to any of the matters specified in **clauses (a), (b) and (c)**.

NOTES:

(i) No rules made by RSE to restrict voting power will be effective till it is approved by the CG and published in the Official Gazette.

(ii) If there is any conflict between the provision of the **Companies Act, 2013** and rules made here, the rules will be effective ignoring the provisions of the **Companies Act, 2013.**

—— Space to write important points for revision ——

2018 - Dec [2] (a) What are the provisions for continuous listing requirement under Securities Contracts (Regulation) Rules, 1957 ? List any six methods for achieving minimum public shareholding by a listed company.

(4 marks)

Answer:

(I) **Requirements for Continuous Listing:**

The continuous listing requirement has been prescribed under Rule 19A(1) of the Securities Contracts (Regulation) Rules ("SCRR"), 1957, which stipulates that every listed company other than public sector company shall maintain public shareholding of at least 25%. However, any listed Public Sector company which has public shareholding below 25%, shall increase its public shareholding to at least 25%, within a period of 2 years from the date of commencement of amendment to the said rules in 2018, in the manner specified by SEBI.

(II) **Methods for achieving minimum public shareholding:**

SEBI has vide its Circular dated November 30, 2015 and February 22, 2018 has prescribed the various methods that may be used by a listed entity to achieve compliance with the minimum public shareholding requirements mandated under rules 19(2)(b) and 19A of the SCRR read with regulation 38 of the SEBI (LODR) Regulations, 2015. The following are the various methods:

(i) Issuance of shares to public through prospectus;

(ii) Offer for sale of shares held by promoters to public through prospectus;

(iii) Sale of shares held by promoters through the secondary market;

(iv) Institutional Placement Programme (IPP);

(v) Right Issue to public shareholders, with promoter/promoter group shareholders forgoing their entitlement to equity shares that may arise from such issue;

(vi) Bonus Issues to public shareholders, with promoter/promoter group shareholders forgoing their entitlement to equity shares that may arise from such issue;

(vii) Sale of shares held by the promoters/promoter group up to 2% of the total paid-up equity share capital of the listed entity in the open market, subject to the conditions specified;

(viii) Allotment of eligible securities through Qualified institutions Placement.

(xi) Any other method as may be approved by the Board on a case to case basis.

—— Space to write important points for revision ——

2019 - Dec [1] (b) ST Ltd. applied for listing of instruments in a recognized stock exchange. However, permission was refused by the stock exchange. Can the company appeal to SAT against such refusal? Explain. **(5 marks)**

Answer:

ST Ltd. has right to appeal to Securities Appellate Tribunal (SAT) against refusal of stock exchanges to list securities of public companies. As per Regulation 22A of Securities Contracts (Regulation) Act, 1956, where a recognized stock exchange, acting in pursuance of any power given to it by its bye-laws, refuses to list the securities of any company, the company shall be entitled to be furnished with reasons for such refusal, it may

(a) Within 15 days from the date on which the reasons for such refusal are furnished to it, or

(b) Where the stock exchange has omitted or failed to dispose of, within the time specified in section 40 of the Companies Act, 2013, the application for permission for the shares or debentures to be dealt with on the stock exchange, within fifteen days from the date of expiry of the specified time or within such further period, not exceeding one month as the Securities Appellate Tribunal may, on sufficient cause being shown, allow appeal to the SAT having jurisdiction in the matter against such refusal, omission or failure, the Securities Appellate Tribunal may, after giving the stock exchange, an opportunity of being heard, -

(i) vary or set aside the decision of the stock exchange; or

(ii) where the stock exchange has omitted or failed to dispose of the application within the specified time, grant or refuse the permission, and where the SAT sets aside the decision of the recognized stock exchange or grants the permission, the stock exchange shall act in conformity with the orders of the Securities Appellate Tribunal.

Every appeal shall be in such form and be accompanied by such fee as may be prescribed. The Securities Appellate Tribunal shall send a copy of every order made by it to the SEBI and parties to the appeal.

The appeal filed before the SAT shall be dealt with by it as expeditiously as possible and endeavour shall be made by it to dispose of the appeal finally within six months from the date of receipt of the appeal.

Space to write important points for revision

2019 - Dec [2] (b) "A recognized stock exchange may frame rules/amend rules made by it to provide for all or any of the matters specified therein." Describe them. **(4 marks)**

Answer:

Power of recognised stock exchanges to make/amend bye-laws

As per Section 9 of the Securities Contracts (Regulations) Act, 1956 any recognized stock exchange may, subject to the previous approval of SEBI, make bye-laws for the regulation and control of contracts. In particular, and without prejudice to the generality of the foregoing power, such bye-laws may provide for:

(a) the opening and closing of markets and the regulation of the hours of trade;

(b) a clearing house for the periodical settlement of contracts and differences thereunder, the delivery of and payment for securities, the passing on of delivery orders and the regulation and maintenance of such clearing house;

(c) the regulation or prohibition of blank transfers;

(d) the number and classes of contracts in respect of which settlements shall be made or differences paid through the clearing house;

(e) the regulation, or prohibition of budlas or carry-over facilities;

(f) the fixing, altering or postponing of days for settlements;

(g) the determination and declaration of market rates, including the opening, closing, highest and lowest rates for securities;

(h) the listing of securities on the stock exchange, the inclusion of any security for the purpose of dealings and the suspension or withdrawal of any such securities, and the suspension or prohibition of trading in any specified securities;

(i) the method and procedure for the settlement of claims or disputes, including settlement by arbitration;

(j) the levy and recovery of fees, fines and penalties;

(k) the regulation of the course of business between parties to contracts in any capacity;

(l) the fixing of a scale of brokerage and other charges;

(m) the emergencies in trade which may arise, whether as a result of pool or syndicated operations or concerning or otherwise, and the exercise of powers in such emergencies including the power to fix maximum and minimum prices for securities;

(n) the making, comparing, settling and closing of bargains;

(o) the regulation of dealings by members for their own account;

(p) the separation of the functions of jobbers and brokers;

(q) the limitations on the volume of trade done by any individual member in exceptional circumstances;

(r) the obligation of members to supply such information or explanation and to produce such documents relating to the business as the governing body may require.

Section 7A of the Securities Contracts (Regulation) Act, 1956, stipulates that a recognized stock exchange may make rules or amend any rules made by it to provide for all or any of the following matters, namely,

(a) the restriction of voting rights to members only in respect of any matter placed before the stock exchange at any meeting;

(b) the regulation of voting rights in respect of any matter placed before the stock exchange at any meeting so that each member may be entitled to have one vote only, irrespective of his share of the paid-up equity capital of the stock exchange;

(c) the restriction on the right of a member to appoint another person as his proxy to attend and vote at a meeting of the stock exchange; and

(d) such incidental, consequential and supplementary matters as may be necessary to give effect to any of the matters specified in clauses (a) (b) and (c).

Powers have been delegated concurrently to SEBI also.

—— Space to write important points for revision ——

2021 - Dec [2A] (Or) (iv) The stock exchange wants to transfer the duties and functions of a clearing house to a clearing corporation. Is it possible to do so ? Explain the purpose if any, it serves. **(4 marks)**

Answer:

Role of Clearing Corporation

Clearing Corporation is responsible:

for clearing and settlement of all trades executed on Stock Exchange and deposit and collateral management and risk management functions;

to bring and sustain confidence in clearing and settlement of securities;

to promote and maintain, short and consistent settlement cycles;

to provide counter-party risk guarantee, and

to operate a tight risk containment system.

Section 8A(1) provides that a recognised stock exchange may, with the prior approval of the SEBI, transfer the duties and functions of a clearing house to a clearing corporation, being a company incorporated under the **Companies Act, 2013, for the purpose of:**

(a) the periodical settlement of contracts and differences thereunder;

(b) the delivery of, and payment for, securities;

(c) any other matter incidental to, or connected with, such transfer.

Every clearing corporation shall, for the purpose of transfer of the duties and functions of a clearing house to a clearing corporation, make bye-laws and submit the same to the SEBI for its approval.

SEBI may, on being satisfied that it is in the interest of the trade and also in the public interest to transfer the duties and functions of a clearing house to a clearing corporation, grant approval to the bye-laws submitted to it and approve transfer of the duties and functions of a clearing house to a clearing corporation.

—— Space to write important points for revision ——

PRACTICAL QUESTIONS

2016 - Dec [5] (b) You are the Company Secretary of Vision Ltd., whose shares were listed at Delhi Stock Exchange. The stock exchange delists the shares of the company. Advise the company regarding the remedy available keeping in view the provisions of the Securities Contracts (Regulation) Act, 1956. **(6 marks)**

Answer:

To,
The Board of Directors,
Vision Ltd.

Sub: Regarding delisting of shares from Delhi Stock Exchange

Sir/ Madam,

Section 21A provides that a recognised stock exchange may delist the securities, after recording the reasons therefor, from any recognised stock exchange on any of the ground or grounds as may be prescribed under this Act.

The securities of a company shall not be delisted unless the company concerned has been given a reasonable opportunity of being heard.

A listed company or an aggrieved investor may file an appeal before the Securities Appellate Tribunal against the decision of the recognised stock exchange delisting the securities within fifteen days from the date of the decision of the recognized stock exchange delisting the securities and the provisions of **Sections 22B to 22E** of this Act, shall apply, as far as may be, to such appeals.

The Securities Appellate Tribunal may, if it is satisfied that the company was prevented by sufficient cause from filing the appeal within the said period, allow it to be filed within a further period not exceeding one month.

Sd/--------
Mr. X
(Company Secretary)
Vision Ltd.

—— Space to write important points for revision ——

2018 - Dec [2] (d) Bombay Stock Exchange Ltd. had suspended trading in shares of XYZ Ltd. for violating conditions of listing agreement. The company has now complied with the listing regulations requirements. By referring to SEBI circular/regulations, discuss the criteria for suspension of the trading in the shares of the listed entities. **(4 marks)**

Answer:

SEBI vide its Circular dated May 3, 2018, prescribed the criteria for suspension of the trading in the shares of the listed entities which are as follows:

Failure to comply with respect to:

(i) board composition including appointment of woman director for two consecutive quarters;
(ii) constitution of audit committee for two consecutive quarters;
(iii) submission of corporate governance compliance report for two consecutive quarters;
(iv) submission of the shareholding pattern for two consecutive quarters;
(v) submission of financial result for two consecutive quarters;
(vi) submission of Annual Report for two consecutive financial years;
(vii) submit information on the reconciliation of shares and capital audit report, for two consecutive quarters;
(vii) receipt of the notice of suspension of trading of that entity by any other recognised stock exchange or any or all of the above grounds

—— Space to write important points for revision ——

2022 - June [2A] (Or) (i) Akilesh, one of the Executive Director of a listed company has violated the provisions of Insider Trading Regulations of SEBI. The Adjudicating Officer has imposed penalty of ₹ 5 lakh. The Executive Director did not pay the amount within the stipulated time as stated in the order.

Examine the resources available with the Adjudicating Officer for recovery of amount under the Securities Contracts (Regulation) Act, 1956.

(4 marks)

TOPIC NOT YET ASKED BUT EQUALLY IMPORTANT FOR EXAMINATION

SHORT NOTES

Q1. Write Short notes on the powers of Central Government for suspending business of recognised Stock exchange(RSE)?

Answer:

(i) Power of CG: Section 12 empowers the Central Government to make an order directing a recognized stock exchange to suspend its business.

(ii) Conditions: Following conditions are required to fulfilled for exercising the aforesaid power:

(a) The Central Government must from an opinion that some emergency has arisen and for the purpose of meeting the emergency. It is expedient to suspend the business of the stock exchange.

(b) The Central Government shall issue a notification in the Official Gazette that the business exchange.

(c) The Central Government shall specify the reasons in the notification published in the official Gazette.

(d) The suspension of such business shall be subject to such condition as may be specified in the notification.

(e) The suspension of business shall be for such period, not **exceeding 7 days** or such extended period, as may be specified in the notification.

—— Space to write important points for revision ——

Q2. Short notes on right to receive dividend declared by the company under Sec. 27 of SC (R) A, 1956?

Answer:

(i) Entitlement: A person, whose name appears on the books of a company, in respect of certain shares in legally entitled to receive and retain any dividend declared by the company, irrespective of the fact that he has already transferred the shares for consideration. However, where the transferee makes a claim for the dividend and furnishes the Shares Certificate and other document relating to transfer to the company for registration of shares in his name, within 15 days of the date on which the dividend became due, the dividend shall be paid to the transferee.

(ii) Extension of Time: It may be noted that the prescribed period of 15 days shall be extended by the following period;

(a) In case of death of the transferee, by the actual period taken by this legal representative to establish his claims;

(b) In case of loss of transfer deed, by the actual period taken for the replacement period:

(c) In case of delay due to causes connected with post, by the actual period of delay.

—— Space to write important points for revision ——

DESCRIPTIVE QUESTIONS

Q1. What are the powers of Central Government with respect to making of rules or directing to RSE for making the rules?

Answer:

Section 8 empowers the Central Government to make an order to a stock exchange to make or amend its rules accordance with the order of the Central Government.

The Central Government may make such an order only if it complies with the following requirements:

(i) The Central Government shall consult the governing body of the stock exchange.

(ii) The Central Government must from an opinion that it is necessary or expedient to make such an order.

(iii) The Central Government shall specify the reasons for making such an order.

(iv) The order to make any rules or to amend any rules already made shall be given only in respect of the matters specified in section 3(2), i.e., the provisions relating to governing body, officer bears and members of the stock exchange, and admission of firm as a member of the stock exchange.

It shall be the duty of such recognized stock exchange(s) to make or amend the rules within 2 months from the date of the order of the Central Government. If any recognized stock exchange fails or neglects to comply with the order of the Central Government within a period of 2 months, the Central Government may make or amend the rules.

Space to write important points for revision

Q2. What are the right to receive income from collective investment scheme under Section 27B of SC (R) A, 1956?

Answer:

(i) Entitlement: A person whose name appears on the books of a collective investment scheme in respect of certain securities/unit is legally entitled to receive and retain any income declared by the collective investment scheme, irrespective of that he has already transferred the securities/ units for consideration. However, where the transferred makes a claim for the income and furnishes the securities/units Certificate and other documents relating to transfer to the collective investment scheme for registration of securities/ units in his name, within 15 days of the date on which the income became due, the income shall be paid to the transferee.

(ii) Extension: It may be noted that the prescribed period of 15 days shall be extended by the following period:

(a) In case of death of the transferee, by the actual period taken by his legal representative to establish his claim;

(b) In case of loss of transfer deed, by the actual period taken for the replacement thereof;

(c) In case of delay due to causes connected with post, by the actual period of delay.

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Q3. What are the special provisions related to commodity derivatives as per SC(R)A, 1956?

Answer:

Section 30A deals with following special provisions relating to commodity derivatives:

(1) This Act shall not apply to non-transferable specific delivery contracts. However, no person shall organise or assist in organising or be a member of any association in any area to which the provisions of section 13 have been made applicable (other than a stock exchange) which provides facilities for the performance of any non-transferable specific delivery contract by any party thereto without having to make or receive actual delivery to or from the other party to the contract or to or from any other party named in the contract.

(2) Where in respect of any area, the provisions of section 13 have been made applicable in relation to commodity derivatives for the sale or purchase of any goods or class of goods, the Central Government may, by notification, declare that in the said area or any part thereof as may

be specified in the notification all or any of the provisions of this Act shall not apply to transferable specific delivery contracts for the sale or purchase of the said goods or class of goods either generally, or to any class of such contracts in particular.

(3) If the Central Government is of the opinion that in the interest of the trade or in the public interest it is expedient to regulate and control non-transferable specific delivery contracts in any area, it may, by notification in the Official Gazette, declare that all or any of the provisions of this Act shall apply to such class or classes of non-transferable specific delivery contracts in such area in respect of such goods or class of goods as may be specified in the notification, and may also specify the manner in which and the extent to which all or any of the said provisions shall so apply.

Q4. Define "Pooled Investment Vehicles" Whether PIVs are eligible to issue debt securities?

Answer:

(i) **Definition of PIVs [sec. 2(da)]:** 'Pooled Investment Vehicle" means a fund established in India in the form of a trust or otherwise, such as mutual fund, alternative investment fund, collective investment schemes or a business trust as defined under sec.2(13A) of Income Tax Act, 1961 and registered with SEBI, which raises or collects monies from investors and invest such funds in accordance with such regulations as may be made by the SEBI in this behalf.

(ii) PIVs eligible for issuing debt securities [sec.30B(1)&(2)] SEBI registered PIVs will now be eligible for borrowing & issuing debt securities in the manner and to such extent as may be specified under the regulations made by SEBI in this behalf.

Further, every PIV shall be permitted to provide security interest to lenders in terms of the facility documents entered into by such pooled investment vehicle.

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