



CORRIDALEGAL
Corporate & Employment Law Firm

The Securities Contracts (Regulation) Act, 1956

Corrida Legal presents the Bare Act Series, sourced from official texts and supported with an executive summary designed to help readers grasp the essence of the law with ease.

NOTE:

An Executive Summary of the Securities Contracts (Regulation) Act, 1956 is included towards the end of this document, right after the full bare act of the statute. This summary helps professionals, business owners, compliance officers, HR managers, legal practitioners, and students quickly understand the key provisions relating to the regulation of stock exchanges and securities contracts, recognition of stock exchanges, listing and delisting of securities, regulation of trading practices, powers of SEBI, prohibition of undesirable transactions, penalties for non-compliance, and enforcement mechanisms, without having to read the entire text.

The Securities Contracts (Regulation) Act, 1956 Summary provides a clear, practical, and time-saving guide for anyone looking to understand India's securities market framework, ensure compliance with SEBI norms, manage listing obligations effectively, and stay aligned with statutory requirements under the SCRA bare act.

SECURITIES CONTRACTS (REGULATION) ACT, 1956

[42 OF 1956]

An Act to prevent undesirable transactions in securities by regulating the business of dealing therein, ¹[*] by providing for certain other matters connected therewith.**

BE it enacted by Parliament in the Seventh Year of the Republic of India as follows:

PRELIMINARY

Short title, extent and commencement.

1. (1) This Act may be called the Securities Contracts (Regulation) Act, 1956.
- (2) It extends to the whole of India.
- (3) It shall come into force on such date² as the Central Government may, by notification in the Official Gazette, appoint.

Definitions.

2. In this Act, unless the context otherwise requires,—

- (a) “contract” means a contract for or relating to the purchase or sale of securities;
- ³ [(aa) “corporatisation” means the succession of a recognised stock exchange, being a body of individuals or a society registered under the Societies Registration Act, 1860 (21 of 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;
- (ab) “demutualisation” means the segregation of ownership and management from the trading rights of the members of a recognised stock exchange in accordance with a scheme approved by the Securities and Exchange Board of India;]
- ⁴ [⁵ [(ac)] “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;
 - (B) a contract which derives its value from the prices, or index of prices, of underlying securities;]

¹ The words “by prohibiting options and” omitted by the Securities Laws (Amendment) Act, 1995 w.e.f. 25.01.1995

² 20-02-1957 vide SRO 528, dated 16-02-1957.

³ Inserted by the Securities Laws (Amendment) Act, 2004 (w.e.f. 12-10-2004)

⁴ Inserted by the Securities Laws (Amendment) Act, 1999 (w.e.f. 22-02-2000).

⁵ Clause (aa) renumbered by the Securities Laws (Amendment) Act, 2004 (w.e.f. 12-10-2004).

- (b) “Government security” means a security created and issued, whether before or after the commencement of this Act, by the Central Government or a State Government for the purpose of raising a public loan and having one of the forms specified in clause (2) of section 2 of the Public Debt Act, 1944 (18 of 1944);
- (c) “member” means a member of a recognised stock exchange;
- (d) “option in securities” means a contract for the purchase or sale of a right to buy or sell, or a right to buy and sell, securities in future, and includes a *teji*, a *mandi*, a *teji mandi*, a *galli*, a put, a call or a put and call in securities;
- (e) “prescribed” means prescribed by rules made under this Act;
- (f) “recognised stock exchange” means a stock exchange which is for the time being recognised by the Central Government under section 4;
- (g) “rules”, with reference to the rules relating in general to the constitution and management of a stock exchange, includes, in the case of a stock exchange which is an incorporated association, its memorandum and articles of association;
- ⁶ [(ga) “*scheme*” means a scheme for corporatisation or demutualisation of a recognised stock exchange which may provide for—
 - (i) *the issue of shares for a lawful consideration and provision of trading rights in lieu of membership cards of members of a recognised stock exchange;*
 - (ii) *the restrictions on voting rights;*
 - (iii) *the transfer of property, business, assets, rights, liabilities, recognitions, contracts of the recognised stock exchange, legal proceedings by, or against, the recognised stock exchange, whether in the name of the recognised stock exchange or any trustee or otherwise and any permission given to, or by, the recognised stock exchange;*
 - (iv) *the transfer of employees of a recognised stock exchange to another recognised stock exchange;*
 - (v) *any other matter required for the purpose of, or in connection with, the corporatisation or demutualisation, as the case may be, of the recognised stock exchange;*]
- ⁷ [⁸ [(gb) “Securities Appellate Tribunal” means a Securities Appellate Tribunal established under sub-section (1) of section 15K of the Securities and Exchange Board of India Act, 1992 (15 of 1992);]
- (h) “securities” include—
 - (i) shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate;
- ⁹[(ia) derivative;

⁶ Inserted by the Securities Laws (Amendment) Act, 2004 (w.e.f. 12-10-2004).

⁷ Inserted by the Securities Laws (Second Amendment) Act, 1999 (w.e.f. 16-12-1999).

⁸ Clause (ga) lettered as Cl. (gb) by the Securities Laws (Amendment) Act, 2004 (w.e.f. 12-10-2004)

⁹ Inserted by the Securities Laws (Amendment) Act, 1999 (w.e.f. 22-02-2000).

- (ib) units or any other instrument issued by any collective investment scheme to the investors in such schemes;]
- ¹⁰[(ic) security receipt as defined in clause (zg) of section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;]
- ¹¹ [(id) *units or any other such instrument issued to the investors under any mutual fund scheme;*]
- ¹²(ii) Government securities;
- (iia) such other instruments as may be declared by the Central Government to be securities; and
- (iii) rights or interest in securities;
- ¹³[(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, the actual period taken for the despatch 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;]
- ¹⁴[(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, 1956 (1 of 1956) whether under a scheme of corporatisation and demutualisation or otherwise,**for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.]*

¹⁰ Inserted by the Securitisation and Reconstruction of Financial Assets and Enforcement by Security Interest Act, 2002 (w.e.f. 21-06-2002).

¹¹ Inserted by the Securities Laws (Amendment) Act, 2004 (w.e.f. 12-10-2004).

¹² Substituted by Act 15 of 1992, (w.e.f. 30-01-1992).

¹³ Substituted by the Depositories Act, 22 of 1996, (w.r.e.f. 20-09-1995). Prior to its substitution, clause(i) read as under:

“(i) ‘spot delivery contract’ means a contract which provides for the 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 despatch 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”.

¹⁴ Substituted by the Securities Laws (Amendment) Act, 2004 (w.e.f. 12-10-2004). Prior to its substitution, clause(j) read as under:

(j) “ ‘stock exchange’ means any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.”

¹⁵**[Interpretation of certain words and expressions.**

2A. Words and expressions used herein and not defined in this Act but defined in the Companies Act, 1956 (1 of 1956) or the Securities and Exchange Board of India Act, 1992 (15 of 1992) or the Depositories Act, 1996 (22 of 1996) shall have the same meanings respectively assigned to them in those Acts.]

RECOGNISED STOCK EXCHANGES

Application for recognition of stock exchanges.

3. (1) Any stock exchange, which is desirous of being recognised for the purposes of this Act, may make an application in the prescribed manner to the Central Government.

(2) Every application under sub-section (1) 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 thereinto;
- (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 authorised representatives and clerks.

Grant of recognition to stock exchanges.

4. (1) If the Central Government is satisfied, after making such inquiry as may be necessary in this behalf and after obtaining such further information, if any, as it may require,—

- (a) that the rules and bye-laws of a stock exchange applying for registration are in conformity with such conditions as may be prescribed with a view to ensure fair dealing and to protect investors;
- (b) that the stock exchange is willing to comply with any other conditions (including conditions as to the number of members) which the Central Government, after consultation with the governing body of the stock exchange and having regard to the area served by the stock exchange and its standing and the nature of the securities dealt with by it, may impose for the purpose of carrying out the objects of this Act; and

¹⁵ Inserted by Act 32 of 1999, S. 3 (w.e.f. 16-12-1999).

- (c) that it would be in the interest of the trade and also in the public interest to grant recognition to the stock exchange;

it may grant recognition to the stock exchange subject to the conditions imposed upon it as aforesaid and in such form as may be prescribed.

(2) The conditions which the Central Government may prescribe under clause (a) of sub-section (1) for the grant of recognition to the stock exchanges may include, among other matters, conditions relating to,—

- (i) the qualifications for membership of stock exchanges;
- (ii) the manner in which contracts shall be entered into and enforced as between members;
- (iii) the representation of the Central Government on each of the stock exchange by such number of persons not exceeding three as the Central Government may nominate in this behalf; and
- (iv) the maintenance of accounts of members and their audit by chartered accountants whenever such audit is required by the Central Government.

(3) Every grant of recognition to a stock exchange under this section shall be published in the Gazette of India and also in the Official Gazette of the State in which the principal office as of the stock exchange is situate, and such recognition shall have effect as from the date of its publication in the Gazette of India.

(4) No application for the grant of recognition shall be refused except after giving an opportunity to the stock exchange concerned to be heard in the matter; and the reasons for such refusal shall be communicated to the stock exchange in writing.

(5) No rules of a recognised stock exchange relating to any of the matters specified in sub-section (2) of section 3 shall be amended except with the approval of the Central Government.

¹⁶[Corporatisation and demutualisation of stock exchanges.

4A. On and from the appointed date, all recognised stock exchanges (if not corporatised and demutualised before the appointed date) shall be corporatised and demutualised in accordance with the provisions contained in section 4B:

Provided that the Securities and Exchange Board of India may, if it is satisfied that any recognised stock exchange was prevented by sufficient cause from being corporatised and demutualised on or after the appointed date, specify another appointed date in respect of that recognised stock exchange and such recognised stock exchange may continue as such before such appointed date.

Explanation.— For the purposes of this section, “appointed date” means the date which the Securities and Exchange Board of India may, by notification in the Official Gazette, appoint and different appointed dates may be appointed for different recognised stock exchanges.

¹⁶ Inserted by the Securities Laws (Amendment) Act, 2004, S.3 (w.e.f. 12-10-2004).

Procedure for corporatisation and demutualisation.

4B. (1) All recognised stock exchanges referred to in section 4A shall, within such time as may be specified by the Securities and Exchange Board of India, submit a scheme for corporatisation and demutualisation for its approval:

Provided that the Securities and Exchange Board of India, may, by notification in the Official Gazette, specify name of the recognised stock exchange, which had already been corporatised and demutualised, and such stock exchange shall not be required to submit the scheme under this section.

(2) On receipt of the scheme referred to in sub-section (1), the Securities and Exchange Board of India may, after making such enquiry as may be necessary in this behalf and obtaining such further information, if any, as it may require and if it is satisfied that it would be in the interest of the trade and also in the public interest, approve the scheme with or without modification.

(3) No scheme under sub-section (2) shall be approved by the Securities and Exchange Board of India if the issue of shares for a lawful consideration or provision of trading rights in lieu of membership card of the members of a recognised stock exchange or payment of dividends to members have been proposed out of any reserves or assets of that stock exchange.

(4) Where the scheme is approved under sub-section (2), the scheme so approved shall be published immediately by—

- (a) the Securities and Exchange Board of India in the Official Gazette;
- (b) the recognised stock exchange in such two daily newspapers circulating in India, as may be specified by the Securities and Exchange Board of India,

and upon such publication, notwithstanding anything to the contrary contained in this Act or any other law for the time being in force or any agreement, award, judgment, decree or other instrument for the time being in force, the scheme shall have effect and be binding on all persons and authorities including all members, creditors, depositors and employees of the recognised stock exchange and on all persons having any contract, right, power, obligation or liability with, against, over, to, or in connection with, the recognised stock exchange or its members.

(5) Where the Securities and Exchange Board of India is satisfied that it would not be in the interest of the trade and also in the public interest to approve the scheme under sub-section (2), it may, by an order, reject the scheme and such order of rejection shall be published by it in the Official Gazette:

Provided that the Securities and Exchange Board of India shall give a reasonable opportunity of being heard to all the persons concerned and the recognised stock exchange concerned before passing an order rejecting the scheme.

(6) The Securities and Exchange Board of India may, while approving the scheme under sub-section (2), by an order in writing, restrict—

- (a) the voting rights of the shareholders who are also stock brokers of the recognised stock exchange;
- (b) the right of shareholders or a stock broker of the recognised stock exchange to

appoint the representatives on the governing board of the stock exchange;

- (c) the maximum number of representatives of the stock brokers of the recognised stock exchange to be appointed on the governing board of the recognised stock exchange, which shall not exceed one-fourth of the total strength of the governing board.

(7) The order made under sub-section (6) shall be published in the Official Gazette and on the publication thereof, the order shall, notwithstanding anything to the contrary contained in the Companies Act, 1956 (1 of 1956), or any other law for the time being in force, have full effect.

(8) Every recognised stock exchange, in respect of which the scheme for corporatisation or demutualisation has been approved under sub-section (2), shall, either by fresh issue of equity shares to the public or in any other manner as may be specified by the regulations made by the Securities and Exchange Board of India, ensure that at least fifty-one per cent of its equity share capital is held, within twelve months from the date of publication of the order under sub-section (7), by the public other than shareholders having trading rights:

Provided that the Securities and Exchange Board of India may, on sufficient cause being shown to it and in the public interest, extend the said period by another twelve months.]

Withdrawal of recognition.

5.¹⁷ [(1)] If the Central Government is of opinion that the recognition granted to a stock exchange under the provisions of this Act should, in the interest of the trade or in the public interest, be withdrawn, the Central Government may serve on the governing body of the stock exchange a written notice that the Central Government is considering the withdrawal of the recognition for the reasons stated in the notice and after giving an opportunity to the governing body to be heard in the matter, the Central Government may withdraw, by notification in the Official Gazette, the recognition granted to the stock exchange:

Provided that no such withdrawal shall affect the validity of any contract entered into or made before the date of the notification, and the Central Government may, after consultation with the stock exchange, make such provision as it deems fit in the notification of withdrawal or in any subsequent notification similarly published for the due performance of any contracts outstanding on that date.

[(2) Where the recognised stock exchange has not been corporatised or demutualised or it fails to submit the scheme referred to in sub-section (1) of section 4B within the specified time therefor or the scheme has been rejected by the Securities and Exchange Board of India under sub-section (5) of section 4B, the recognition granted to such stock exchange under section 4, shall, notwithstanding anything to the contrary contained in this Act, stand withdrawn and the Central Government shall publish, by notification in the Official Gazette, such withdrawal of recognition:

¹⁷ Section 5 renumbered as sub-sec (1) thereof and sub-sec (2) inserted by the Securities Laws (Amendment) Act, 2004, S. 4 (w.e.f. 12-10-2004).

Provided that no such withdrawal shall affect the validity of any contract entered into or made before the date of the notification, and the Securities and Exchange Board of India may, after consultation with the stock exchange, make such provisions as it deems fit in the order rejecting the scheme published in the Official Gazette under sub-section (5) of section 4B.]

Power of Central Government to call for periodical returns or direct inquiries to be made.

6. (1) Every recognised stock exchange shall furnish to the ¹⁸[Securities and Exchange Board of India] such periodical returns relating to its affairs as may be prescribed.

(2) Every recognised stock exchange and every member thereof shall maintain and preserve for such periods not exceeding five years such books of account, and other documents as the Central Government, after consultation with the stock exchange concerned, may prescribe in the interest of the trade or in the public interest, and such books of account, and other documents shall be subject to inspection at all reasonable times by the ¹⁹[Securities and Exchange Board of India].

(3) Without prejudice to the provisions contained in sub-sections (1) and (2), the ²⁰[Securities and Exchange Board of India], if it is satisfied that it is in the interest of the trade or in the public interest so to do, may, by order in writing,—

- (a) call upon a recognised stock exchange or any member thereof to furnish in writing such information or explanation relating to the affairs of the stock exchange or of the member in relation to the stock exchange as the ²¹[Securities and Exchange Board of India] may require; or
- (b) appoint one or more persons to make an inquiry in the prescribed manner in relation to the affairs of the governing body of a stock exchange or the affairs of any of the members of the stock exchange in relation to the stock exchange and submit a report of the result of such inquiry to the ²²[Securities and Exchange Board of India] within such time as may be specified in the order or, in the case of an inquiry in relation to the affairs of any of the members of a stock exchange, direct the governing body to make the inquiry and submit its report to the ²³[Securities and Exchange Board of India].

(4) Where an inquiry in relation to the affairs of a recognised stock exchange or the affairs of any of its members in relation to the stock exchange has been undertaken under sub-section (3),—

- (a) every director, manager, secretary or other officer of such stock exchange;
- (b) every member of such stock exchange;
- (c) if the member of the stock exchange is a firm, every partner, manager, secretary or

¹⁸ Substituted by Act 15 of 1992, S.33 and sch., for “Central Government” (w.e.f. 30-01-1992)

¹⁹ *ibid*

²⁰ *ibid*

²¹ *ibid*

²² *ibid*

²³ *ibid*

other officer of the firm; and

- (d) every other person or body of persons who has had dealings in the course of business with any of the persons mentioned in clauses (a), (b) and (c), whether directly or indirectly;

shall be bound to produce before the authority making the inquiry all such books of account, and other documents in his custody or power relating to or having a bearing on the subject-matter of such inquiry and also to furnish the authorities within such time as may be specified with any such statement or information relating thereto as may be required of him.

Annual reports to be furnished to Central Government by stock exchanges.

7. Every recognised stock exchange shall furnish the Central Government with a copy of the annual report, and such annual report shall contain such particulars as may be prescribed.

²⁴[Power of recognised stock exchange to make rules restricting voting rights, etc.

7A. (1) 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;
- (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).

(2) No rules of a recognised stock exchange made or amended in relation to any matter referred to in clauses (a) to (d) of sub-section (1) shall have effect until they have been approved by the Central Government and published by that Government in the Official Gazette and, in approving the rules so made or amended, the Central Government may make such modifications therein as it thinks fit, and on such publication, the rules as approved by the Central Government shall be deemed to have been validly made, notwithstanding anything to the contrary contained in the Companies Act, 1956 (1 of 1956)].

Power of Central Government to direct rules to be made or to make rules.

8. (1) Where, after consultation with the governing bodies of stock exchanges generally or with the governing body of any stock exchange in particular, the Central Government

²⁴ Inserted by Act 49 of 1959, S. 2.

is of opinion that it is necessary or expedient so to do, it may, by order in writing together with a statement of the reasons therefore, direct recognised stock exchanges generally or any recognised stock exchange in particular, as the case may be, to make any rules or to amend any rules already made in respect of all or any of the matters specified in sub-section (2) of section 3 within a period of ²⁵[two] months from the date of the order.

(2) If any recognised stock exchange fails or neglects to comply with any order made under sub-section (1) within the period specified therein, the Central Government may make the rules for, or amend the rules made by, the recognised stock exchange, either in the form proposed in the order or with such modifications thereof as may be agreed to between the stock exchange and the Central Government.

(3) Where in pursuance of this section any rules have been made or amended, the rules so made or amended shall be published in the Gazette of India and also in the Official Gazette or Gazettes of the State or States in which the principal office or offices of the recognised stock exchange or exchanges is or are situate, and, on the publication thereof in the Gazette of India, the rules so made or amended shall, notwithstanding anything to the contrary contained in the Companies Act, 1956 (1 of 1956), or in any other law for the time being in force, have effect as if they had been made or amended by the recognised stock exchange or stock exchanges, as the case may be.

²⁶ [Clearing corporation.]

8A. (1) A recognised stock exchange may, with the prior approval of the Securities and Exchange Board of India, transfer the duties and functions of a clearing house to a clearing corporation, being a company incorporated under the Companies Act, 1956 (1 of 1956), for the purpose of—

- (a) the periodical settlement of contracts and differences there under;
- (b) the delivery of, and payment for, securities;
- (c) any other matter incidental to, or connected with, such transfer.

(2) Every clearing corporation shall, for the purpose of transfer of the duties and functions of a clearing house to a clearing corporation referred to in sub-section (1), make bye-laws and submit the same to the Securities and Exchange Board of India for its approval.

(3) The Securities and Exchange Board of India 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 under sub-section (2) and approve the transfer of the duties and functions of a clearing house to a clearing corporation referred to in sub-section (1).

(4) The provisions of sections 4, 5, 6, 7, 8, 9, 10, 11 and 12 shall, as far as may be, apply to a clearing corporation referred to in sub-section (1) as they apply in relation to a recognised stock exchange.]

²⁵ Substituted by Act 9 of 1995, S. 19 (w.e.f. 25-01-1995) for "six months".

²⁶ Inserted by the Securities Laws (Amendment) Act, 2004, S.5 (w.e.f. 12-10-2004).

Power of recognised stock exchanges to make bye-laws.

9. (1) Any recognised stock exchange may, subject to the previous approval of the ²⁷[Securities and Exchange Board of India], make bye-laws for the regulation and control of contracts.

(2) 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 submission to the ²⁸[Securities and Exchange Board of India] by the clearing house as soon as may be after each periodical settlement of all or any of the following particulars as the ²⁹[Securities and Exchange Board of India] may, from time to time, require, namely:—
 - (i) the total number of each category of security carried over from one settlement period to another;
 - (ii) the total number of each category of security, contracts in respect of which have been squared up during the course of each settlement period;
 - (iii) the total number of each category of security actually delivered at each clearing;
- (d) the publication by the clearing house of all or any of the particulars submitted to the ³⁰[Securities and Exchange Board of India] under clause (c) subject to the directions, if any, issued by the ³¹[Securities and Exchange Board of India] in this behalf;
- (e) the regulation or prohibition of blank transfers;
- (f) the number and classes of contracts in respect of which settlements shall be made or differences paid through the clearing house;
- (g) the regulation, or prohibition of *budlas* or carry-over facilities;
- (h) the fixing, altering or postponing of days for settlements;
- (i) the determination and declaration of market rates, including the opening, closing highest and lowest rates for securities;
- (j) the terms, conditions and incidents of contracts, including the prescription of margin requirements, if any, and conditions relating thereto, and the forms of contracts in writing;
- (k) the regulation of the entering into, making, performance, recession and termination, of contracts, including contracts between members or between a member and his constituent or between a member and a person who is not a member, and the

²⁷ Substituted by Act 15 of 1992. S.33 and Sch., for “Central Government” (w.e.f. 30-01- 1992).

²⁸ *ibid*

²⁹ *ibid*

³⁰ *ibid*

³¹ *ibid*

consequences of default or insolvency on the part of a seller or buyer or intermediary, the consequences of a breach or omission by a seller or buyer, and the responsibility of members who are not parties to such contracts;

- (l) the regulation of *taravani* business including the placing of limitations thereon;
 - (m) 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;
 - (n) the method and procedure for the settlement of claims or disputes, including settlement by arbitration;
 - (o) the levy and recovery of fees, fines and penalties;
 - (p) the regulation of the course of business between parties to contracts in any capacity;
 - (q) the fixing of a scale of brokerage and other charges;
 - (r) the making, comparing, settling and closing of bargains;
 - (s) the emergencies in trade which may arise, whether as a result of pool or syndicated operations or cornering or otherwise, and the exercise of powers in such emergencies, including the power to fix maximum and minimum prices for securities;
 - (t) the regulation of dealings by members for their own account;
 - (u) the separation of the functions of jobbers and brokers;
 - (v) the limitations on the volume of trade done by any individual member in exceptional circumstances;
 - (w) 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.
- (3) The bye-laws made under this section may—
- (a) specify the bye-laws the contravention of which shall make a contract entered into otherwise than in accordance with the bye-laws void under sub-section (1) of section 14;
 - (b) provide that the contravention of any of the bye-laws shall render the member concerned liable to one or more of the following punishments, namely:—
 - (i) fine,
 - (ii) expulsion from membership,
 - (iii) suspension from membership for a specified period,
 - (iv) any other penalty of a like nature not involving the payment of money.
- (4) Any bye-laws made under this section shall be subject to such conditions in regard to previous publication as may be prescribed, and, when approved by the ³²[Securities and Exchange Board of India], shall be published in the Gazette of India and also in the Official Gazette of the State in which the principal office of the recognised stock

³² Substituted by Act 15 of 1992. S.33 and Sch., for “Central Government” (w.e.f. 30-01- 1992).

exchange is situate, and shall have effect as from the date of its publication in the Gazette of India:

Provided that if the ³³[Securities and Exchange Board of India] is satisfied in any case that in the interest of the trade or in the public interest any bye-law should be made immediately, it may, by order in writing specifying the reasons therefore, dispense with the condition of previous publication.

Power of ³⁴[Securities and Exchange Board of India] to make or amend bye-laws of recognised stock exchanges.

10. (1) The Securities and Exchange Board of India may, either on a request in writing received by it in this behalf from the governing body of a recognised stock exchange or on its own motion, if it is satisfied after consultation with the governing body of the stock exchange that it is necessary or expedient so to do and after recording its reasons for so doing, make bye-laws for all or any of the matters specified in section 9 or amend any bye-laws made by such stock exchange under that section.

(2) Where in pursuance of this section any bye-laws have been made or amended the bye-laws so made or amended shall be published in the Gazette of India and also in the Official Gazette of the State in which the principal office of the recognised stock exchange is situate, and on the publication thereof in the Gazette of India, the bye-laws so made or amended shall have effect as if they had been made or amended by the recognised stock exchange concerned.

(3) Notwithstanding anything contained in this section, where the governing body of a recognised stock exchange objects to any bye-laws made or amended under this section by the ³⁵[Securities and Exchange Board of India] on its own motion, it may, within ³⁶[two] months of the publication thereof in the Gazette of India under sub-section (2), apply to the ³⁷[Securities and Exchange Board of India] for revision thereof, and the ³⁸[Securities and Exchange Board of India] may, after giving an opportunity to the governing body of the stock exchange to be heard in the matter, revise the bye-laws so made or amended, anywhere any bye-laws so made or amended are revised as a result of any action taken under this sub-section, the bye-laws so revised shall be published and shall become effective as provided in sub-section (2).

(4) The making or the amendment or revision of any bye-laws under this section shall in all cases be subject to the condition of previous publication:

Provided that if the ³⁹ [Securities and Exchange Board of India] is satisfied in any case that in the interest of the trade or in the public interest any bye-laws should be made, amended or revised immediately, it may, by order in writing specifying the reasons therefore, dispense with the condition of previous publication.

³³ Substituted by Act 15 of 1992. S.33 and Sch., for “Central Government” (w.e.f. 30-01- 1992).

³⁴ *ibid*

³⁵ *ibid*

³⁶ Substituted by Act 9 of 1995, S.20 for “six months” (w.e.f. 25-10-1995).

³⁷ *ibid*

³⁸ *ibid*

³⁹ *ibid*

Power of Central Government to supersede governing body of a recognised stock exchange.

11. (1) Without prejudice to any other powers vested in the Central Government under this Act, where the Central Government is of opinion that the governing body of any recognised stock exchange should be superseded, then, notwithstanding anything contained in any other law for the time being in force, in the Central Government may serve on the governing body a written notice that the Central Government is considering the supersession of the governing body for the reasons specified in the notice and after giving an opportunity to the governing body to be heard in the matter, it may, by notification in the Official Gazette, declare the governing body of such stock exchange to be superseded, and may appoint any person or persons to exercise and perform all the powers and duties of the governing body, and, where more persons than one are appointed, may appoint one of such persons to be the chairman and another to be the vice-chairman thereof.

(2) On the publication of a notification in the Official Gazette under sub-section (1), the following consequences shall ensue, namely:—

- (a) the members of the governing body which has been superseded shall, as from the date of the notification of supersession, cease to hold office as such members;
- (b) the person or persons appointed under sub-section (1) may exercise and perform all the powers and duties of the governing body which has been superseded;
- (c) all such property of the recognised stock exchange as the person or persons appointed under sub-section (1) may, by order in writing, specify in this behalf as being necessary for the purpose of enabling him or them to carry on the business of the stock exchange, shall vest in such person or persons.

(3) Notwithstanding anything to the contrary contained in any law or the rules or bye-laws of the recognised stock exchange the governing body of which is superseded under sub-section (1), the person or persons appointed under that sub-section shall hold office for such period as may be specified in the notification published under that sub-section and the Central Government may from time to time, by like notification, vary such period.

(4) The Central Government may at any time before the determination of the period of office of any person or persons appointed under this section call upon the recognised stock exchange to re-constitute the governing body in accordance with its rules and on such re-constitution all the property of the recognised stock exchange which has vested in, or was in the possession of, the person or persons appointed under sub-section (1), shall re-vest or vest, as the case may be, in the governing body so re-constituted:

Provided that until a governing body is so re-constituted, the person or persons appointed under sub-section (1) shall continue to exercise and perform their powers and duties.

Power to suspend business of recognised stock exchanges.

12. If in the opinion of the Central Government an emergency has arisen and for the purpose of meeting the emergency the Central Government considers it expedient so to do, it may, by notification in the Official Gazette, for reasons to be set out therein, direct

a recognised stock exchange to suspend such of its business for such period not exceeding seven days and subject to such conditions as may be specified in the notification, and, if, in the opinion of the Central Government, the interest of the trade or the public interest requires that the period should be extended, may, by like notification extend the said period from time to time:

Provided that where the period of suspension is to be extended beyond the first period, no notification extending the period of suspension shall be issued unless the governing body of the ⁴⁰[recognised stock exchange] has been given an opportunity of being heard in the matter.

⁴¹ [Power to issue directions.

12A. If, after making or causing to be made an inquiry, the Securities and Exchange Board of India is satisfied that it is necessary—

- (a) in the interest of investors, or orderly development of securities market; or
- (b) to prevent the affairs of any recognised stock exchange or clearing corporation, or such other agency or person, providing trading or clearing or settlement facility in respect of securities, being conducted in a manner detrimental to the interests of investors or securities market; or
- (c) to secure the proper management of any such stock exchange or clearing corporation or agency or person, referred to in clause (b),

it may issue such directions,—

- (i) to any stock exchange or clearing corporation or agency or person referred to in clause (b) or any person or class of persons associated with the securities market; or
- (ii) to any company whose securities are listed or proposed to be listed in a recognised stock exchange,

as may be appropriate in the interests of investors in securities and the securities market.]

CONTRACTS AND OPTIONS IN SECURITIES

Contracts in notified areas illegal in certain circumstances.

13. If the Central Government is satisfied, having regard to the nature or the volume of transactions in securities in any ⁴²[*State or States or area*] that it is necessary so to do, it may, by notification in the Official Gazette, declared this section to apply to such ⁴³ [*State or States or area*], and thereupon every contract in such ⁴⁴ [*State or States or area*] which

⁴⁰ Substituted by Act 56 of 1974, S.3 and Sch. II, for “recognized association” (w.e.f. 20-12-1974).

⁴¹ Inserted by the Securities Laws (Amendment) Act, 2004, S.6 (w.e.f. 12-10-2004).

⁴² Substituted by the Securities Laws (Amendment) Act, 2004, S.7, for “state or area”(w.e.f. 12-10-2004)

⁴³ *ibid*

⁴⁴ *ibid*

is entered into after the date of the notification otherwise than ⁴⁵ [between the members of a recognised stock exchange or recognised stock exchanges] in such ⁴⁶[State or States or area] or through or with such member shall be illegal:

⁴⁷ **[Provided that any contract entered into between members of two or more recognised stock exchanges in such State or States or area, shall—**

- (i) *be subject to such terms and conditions as may be stipulated by the respective stock exchanges with prior approval of Securities and Exchange Board of India;*
- (ii) *require prior permission from the respective stock exchanges if so stipulated by the stock exchanges with prior approval of Securities and Exchange Board of India.]*

⁴⁸ **[Additional trading floor.**

13A. A stock exchange may establish additional trading floor with the prior approval of the Securities and Exchange Board of India in accordance with the terms and conditions stipulated by the said Board.

Explanation: For the purposes of this section, “additional trading floor” means a trading ring or trading facility offered by a recognised stock exchange outside its area of operation to enable the investors to buy and sell securities through such trading floor under the regulatory framework of that stock exchange.]

Contracts in notified areas to be void in certain circumstances.

14. (1) Any contract entered into in any State or area specified in the notification under section 13 which is in contravention of any of the bye-laws specified in that behalf under clause (a) of sub-section (3) of section 9 shall be void:

- (i) as respects the rights of any member of the recognised stock exchange who has entered into such contract in contravention of any such bye-law, and also
- (ii) as respects the rights of any other person who has knowingly participated in the transaction entailing such contravention.

(2) Nothing in sub-section (1) shall be construed to affect the right of any person other than a member of the recognised stock exchange to enforce any such contract or to recover any sum under or in respect of such contract if such person had no knowledge that the transaction was in contravention of any of the bye-laws specified in clause (a) of sub-section (3) of section 9.

Members may not act as principals in certain circumstances.

15. No member of a recognised stock exchange shall in respect of any securities enter into any contract as a principal with any person other than a member of a recognised stock exchange, unless he has secured the consent or authority of such person and

⁴⁵Substituted by the Securities Laws (Amendment) Act, 2004, S.7, for “between members of a recognized stock exchange” (w.e.f. 12-10-2004).

⁴⁶ *ibid*

⁴⁷ Substituted by the Securities Laws (Amendment) Act, 2004, S.7 (w.e.f. 12-10-2004).

⁴⁸ Inserted by Act 9 of 1995, S.21 (w.e.f. 25-01-1995).

discloses in the note, memorandum or agreement of sale or purchase that he is acting as a principal:

Provided that where the member has secured the consent or authority of such person otherwise than in writing he shall secure written confirmation by such person or such consent or authority within three days from the date of the contract:

Provided further that no such written consent or authority of such person shall be necessary for closing out any outstanding contract entered into by such person in accordance with the bye-laws, if the member discloses in the note, memorandum or agreement of sale or purchase in respect of such closing out that he is acting as a principal.

Power to prohibit contracts in certain cases.

16. (1) If the Central Government is of opinion that it is necessary to prevent undesirable speculation in specified securities in any State or area, it may, by notification in the Official Gazette, declare that no person in the State or area specified in the notification shall, save with the permission of the Central Government, enter into any contract for the sale or purchase of any security specified in the notification except to the extent and in the manner, if any, specified therein.

(2) All contracts in contravention of the provisions of sub-section (1) entered into after the date of notification issued thereunder shall be illegal.

Licensing of dealers in securities in certain areas.

17. (1) Subject to the provisions of sub-section (3) and to the other provisions contained in this Act, no person shall carry on or purport to carry on, whether on his own behalf or on behalf of any other person, the business of dealing in securities in any State or area to which section 13 has not been declared to apply and to which the Central Government may, by notification in the Official Gazette, declare this section to apply, except under the authority of a ⁴⁹ [licence granted by the Securities and Exchange Board of India] in this behalf.

(2) No notification under sub-section (1) shall be issued with respect to any State or area unless the Central Government is satisfied, having regard to the manner in which securities are being dealt with in such State or area, that it is desirable or expedient in the interest of the trade or in the public interest that such dealings should be regulated by a system of licensing.

(3) The restrictions imposed by sub-section (1) in relation to dealings in securities shall not apply to the doing of anything by or on behalf of a member of any recognised stock exchange.

⁴⁹ Substituted by Act 15 of 1992, S.33 and Sch., for “licence granted by the Central Government” (w.e.f. 30-01-1992)

Exclusion of spot delivery contracts from sections 13, 14, 15 and 17.

18. (1) Nothing contained in sections 13, 14, 15 and 17 shall apply to spot delivery contracts.

(2) Notwithstanding anything contained in sub-section (1), if the Central Government¹ is of opinion that in the interest of the trade or in the public interest it is expedient to regulate and control the business of dealing in spot delivery contracts also in any State or area (whether section 13 has been declared to apply to that State or area or not), it may, by notification in the Official Gazette, declare that the provisions of section 17 shall also apply to such State or area in respect of spot delivery contracts generally or in respect of spot delivery contracts for the sale or purchase of such securities as may be specified in the notification, and may also specify the manner in which, and the extent to which, the provisions of that section shall so apply.

⁵⁰ **[Contracts in derivative.**

18A. Notwithstanding anything contained in any other law for the time being in force, contracts in derivative shall be legal and valid if such contracts are—

- (a) traded on a recognised stock exchange;
 - (b) settled on the clearing house of the recognised stock exchange,
- in accordance with the rules and bye-laws of such stock exchange.]

Stock exchanges other than recognised stock exchanges prohibited.

19. (1) No person shall, except with the permission of the Central Government, organise or assist in organising or be a member of any stock exchange (other than a recognised stock exchange) for the purpose of assisting in, entering into or performing any contracts in securities.

(2) This section shall come into force in any State or area on such date as the Central Government may, by notification in the Official Gazette, appoint.

Prohibition of options in securities.

20. ⁵¹[***]

⁵⁰ Inserted by Act 31 of 1999, S.3 (w.e.f. 22-02-2000). Prior to omission Section 20 read as under;
“*Prohibition of options in securities*-(1)Notwithstanding anything contained in this act or in other law for the time being in force, all options in securities entered into after the commencement of this act shall be illegal.

(2) Any option in securities which has been entered into before such commencement and which remains to be performed , whether wholly or in part, after such commencement shall, to this extend, become void.”

⁵¹ Omitted by Securities Laws (Amendment) Act, 1995, S.22 (w.e.f. 25-01-1995).

LISTING OF SECURITIES ⁵² [***]

⁵³ [Conditions for listing.

21. 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.]

⁵⁴ [Delisting of securities.

21A. (1) A recognised stock exchange may delist the securities, after recording the reasons therefore, from any recognised stock exchange on any of the ground or grounds as may be prescribed under this Act:

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

(2) 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 recognised 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:

Provided that 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.]

Right of appeal against refusal of stock exchanges to list securities of public companies.

22. Where a recognised stock exchange acting in pursuance of any power given to it by its bye-laws, refuses to list the securities of any public company ⁵⁵[or collective investment scheme], the company ⁵⁶[or scheme] shall be entitled to be furnished with reasons for such refusal, and may,—

- (a) within fifteen 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

⁵² The words “BY PUBLIC COMPANIES” omitted by Act 31 of 1999, S.4(w.e.f. 22-02-2000).

⁵³ Substituted by the Securities Laws (Amendment) Act, 1995 w.e.f. 25.01.1995. Prior to its substitution section 21 read as under;

“Power to compel listing of securities by public companies.- Notwithstanding anything contained in any other law for the time being in force, if the Securities and Exchange Board of India is of opinion, having regard to the nature of the securities issued by any public company regard to the nature of the securities issued by any public company as defined in the Companies Act, 1956 (1 of 1956), or to the dealings in them, that it is necessary or expedient in the interest of the trade or in the public interest so to do, it may require the company, after giving it an opportunity of being heard in the matter, to comply with such requirements as may be prescribed with respect to the listing of its securities on any recognised stock exchange.”

⁵⁴ Inserted by the Securities Laws (Amendment) Act, 2004, S.8 (w.e.f. 12-10-2004).

⁵⁵ Substituted by Act 41 of 1974, S.42, for S.22 (w.e.f. 01-04-1975).

⁵⁶ Inserted by Act 31 of 1999, S.5 (w.e.f. 22-02-2000).

specified in sub-section (1) of section 73 of the Companies Act, 1956 (1 of 1956) (hereafter in this section referred to as the “specified time”), 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 Central Government may, on sufficient cause being shown, allow,

appeal to the Central Government against such refusal, omission or failure, as the case may be, and thereupon the Central Government 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 Central Government sets aside the decision of the recognised stock exchange or grants the permission, the stock exchange shall act in conformity with the orders of the Central Government:

⁵⁷ [Provided that no appeal shall be preferred against refusal, omission or failure, as the case may be, under this section on and after the commencement of the Securities Laws (Second Amendment) Act, 1999.]

⁵⁸ **[Right of appeal to Securities Appellate Tribunal against refusal of stock exchange to list securities of public companies.]**

22A. (1) Where a recognised 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, and may,—

- (a) within fifteen 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 sub-section (1A) of section 73 of the Companies Act, 1956 (1 of 1956), (hereafter in this section referred to as the “specified time”), 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 Securities Appellate Tribunal having jurisdiction in the matter against such refusal, omission or failure, as the case may be, and thereupon 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 Securities Appellate Tribunal sets aside the decision of the recognised

⁵⁷ Inserted by Act 32 of 1999, S.4 (w.e.f. 16-12-1999).

⁵⁸ *ibid*

stock exchange or grants the permission, the stock exchange shall act in conformity with the orders of the Securities Appellate Tribunal.

(2) Every appeal under sub-section (1) shall be in such form and be accompanied by such fee as may be prescribed.

(3) The Securities Appellate Tribunal shall send a copy of every order made by it to the Board and parties to the appeal.

(4) The appeal filed before the Securities Appellate Tribunal under sub-section (1) 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.

Procedure and powers of Securities Appellate Tribunal.

22B. (1) The Securities Appellate Tribunal shall not be bound by the procedure laid down by the Code of Civil Procedure, 1908 (5 of 1908), but shall be guided by the principles of natural justice and, subject to the other provisions of this Act and of any rules, the Securities Appellate Tribunal shall have powers to regulate their own procedure including the places at which they shall have their sittings.

(2) The Securities Appellate Tribunal shall have, for the purpose of discharging their functions under this Act, the same powers as are vested in a civil court under the Code of Civil Procedure, 1908 (5 of 1908), while trying a suit, in respect of the following matters, namely:—

- (a) summoning and enforcing the attendance of any person and examining him on oath;
- (b) requiring the discovery and production of documents;
- (c) receiving evidence on affidavits;
- (d) issuing commissions for the examination of witnesses or documents;
- (e) reviewing its decisions;
- (f) dismissing an application for default or deciding it *ex parte*;
- (g) setting aside any order of dismissal of any application for default or any order passed by it *ex parte*; and
- (h) any other matter which may be prescribed.

(3) Every proceeding before the Securities Appellate Tribunal shall be deemed to be a judicial proceeding within the meaning of sections 193 and 228, and for the purposes of section 196 of the Indian Penal Code (45 of 1860) and the Securities Appellate Tribunal shall be deemed to be a civil court for all the purposes of section 195 and Chapter XXVI of the Code of Criminal Procedure, 1973 (2 of 1974).

Right to legal representation.

22C. The appellant may either appear in person or authorise one or more chartered accountants or company secretaries or cost accountants or legal practitioners or any of its officers to present his or its case before the Securities Appellate Tribunal.

Explanation.— For the purposes of this section,—

- (a) “chartered accountant” means a chartered accountant as defined in clause (b) of

sub-section (1) of section 2 of the Chartered Accountants Act, 1949 (38 of 1949) and who has obtained a certificate of practice under sub-section (1) of section 6 of that Act;

- (b) “company secretary” means a company secretary as defined in clause (c) of sub-section (1) of section 2 of the Company Secretaries Act, 1980 (56 of 1980) and who has obtained a certificate of practice under sub-section (1) of section 6 of that Act;
- (c) “cost accountant” means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959) and who has obtained a certificate of practice under sub-section (1) of section 6 of that Act;
- (d) “legal practitioner” means an advocate, *vakil* or an attorney of any High Court, and includes a pleader in practice.

Limitation.

22D. The provisions of the Limitation Act, 1963 (36 of 1963) shall, as far as may be, apply to an appeal made to a Securities Appellate Tribunal.

Civil court not to have jurisdiction.

22E. No civil court shall have jurisdiction to entertain any suit or proceeding in respect of any matter which a Securities Appellate Tribunal is empowered by or under this Act to determine and no injunction shall be granted by any court or other authority in respect of any action taken or to be taken in pursuance of any power conferred by or under this Act.

⁵⁹ **[Appeal to Supreme Court.**

22F. *Any person aggrieved by any decision or order of the Securities Appellate Tribunal may file an appeal to the Supreme Court within sixty days from the date of communication of the decision or order of the Securities Appellate Tribunal to him on any question of law arising out of such order:*

Provided *that the Supreme Court may, if it is satisfied that the appellant was prevented by sufficient cause from filing the appeal within the said period, allow it to be filed within a further period not exceeding sixty days.]*

⁵⁹ Substituted vide The Securities Laws (Amendment) Act, 2004 (w.e.f. 12-10-2004). Earlier Section 22F read as under;

"Any person aggrieved by any decision or order of the Securities Appellate Tribunal may file an appeal to the High Court within sixty days from the date of communication of the decision or order of the Securities Appellate Tribunal to him on any question of fact or law arising out of such order".
Provided that the High Court may, if it is satisfied that the appellant was prevented by sufficient cause from filing the appeal within the said period, allow it to be filed within a further period not exceeding sixty days."

PENALTIES AND PROCEDURE

Penalties.

23. (1) Any person who—

- (a) without reasonable excuse (the burden of proving which shall be on him) fails to comply with any requisition made under sub-section (4) of section 6; or
- (b) enters into any contract in contravention of any of the provisions contained in section 13 or section 16; or
- (c) contravenes the provisions contained in section 17, or section 19; or
- ⁶⁰ [(d) enters into any contract in derivative in contravention of section 18A or the rules made under section 30;]
- (e) owns or keeps a place other than that of a recognised stock exchange which is used for the purpose of entering into or performing any contracts in contravention of any of the provisions of this Act and knowingly permits such place to be used for such purposes; or
- (f) manages, controls, or assists in keeping any place other than that of a recognised stock exchange which is used for the purpose of entering into or performing any contracts in contravention of any of the provisions of this Act or at which contracts are recorded or adjusted or rights or liabilities arising out of contracts are adjusted, regulated or enforced in any manner whatsoever; or
- (g) not being a member of a recognised stock exchange or his agent authorised as such under the rules or bye-laws of such stock exchange or not being a dealer in securities licensed under section 17 willfully represents to or induces any person to believe that contracts can be entered into or performed under this Act through him; or
- (h) not being a member of a recognised stock exchange or his agent authorised as such under the rules or bye-laws of such stock exchange or not being a dealer in securities licensed under section 17, canvasses, advertises or touts in any manner either for himself or on behalf of any other persons for any business connected with contracts in contravention of any of the provisions of this Act; or
- (i) joins, gathers or assists in gathering at any place other than the place of business specified in the bye-laws of a recognised stock exchange any person or persons for making bids or offers or for entering into or performing any contracts in contravention of any of the provisions of this Act;

⁶¹ [shall, without prejudice to any award of penalty by the Adjudicating Officer under this Act, on conviction, be punishable with imprisonment for a term which may extend to ten years or with fine, which may extend to twenty-five crore rupees, or with both.]

⁶⁰ Inserted by Act 31 of 1999, S.6 (w.e.f. 25-01-1995).

⁶¹ Substituted for "shall, on conviction, be punishable with imprisonment for a term which may extend to one year, or with fine, or with both." vide the The Securities Laws (Amendment) Act, 2004.

(2) Any person who enters into any contract in contravention of the provisions contained in section 15 ⁶² [⁶³ {or who fails to comply with the provisions of section 21 ⁶⁴ [or section 21A] or with the orders of] or section 22 ⁶⁵ [or with the orders of the Securities Appellate Tribunal] ⁶⁶ [shall, without prejudice to any award of penalty by the Adjudicating Officer under this Act, on conviction, be punishable with imprisonment for a term which may extend to ten years or with fine, which may extend to twenty-five crore rupees, or with both.]

⁶⁷ **[Penalty for failure to furnish information, return, etc.**

23A. Any person, who is required under this Act or any rules made there under,—

- (a) to furnish any information, document, books, returns or report to a recognised stock exchange, fails to furnish the same within the time specified therefore in the listing agreement or conditions or bye-laws of the recognised stock exchange, shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less for each such failure;
- (b) to maintain books of account or records, as per the listing agreement or conditions, or bye-laws of a recognised stock exchange, fails to maintain the same, shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

Penalty for failure by any person to enter into an agreement with clients.

23B. If any person, who is required under this Act or any bye-laws of a recognised stock exchange made there under, to enter into an agreement with his client, fails to enter into such an agreement, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less for every such failure.

Penalty for failure to redress investors' grievances.

23C. If any stock broker or sub-broker or a company whose securities are listed or proposed to be listed in a recognised stock exchange, after having been called upon by the Securities and Exchange Board of India or a recognised stock exchange in writing, to redress the grievances of the investors, fails to redress such grievances within the time stipulated by the Securities and Exchange Board of India or a recognised stock exchange, he or it shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

⁶²Substituted by Act 15 of 1992, S.33 and Sch., for “Central Government under section 21 or section 22” (w.e.f. 30-01-1992).

⁶³ Substituted by Act 9 of 1995, S.24, for “or who fails to comply with the orders of the Securities and Exchange Board of India under section 21” (w.e.f. 25-01-1995).

⁶⁴ Substituted by the Securities Laws (Amendment) Act, 2004, S.10, for “Section 21” (w.e.f. 12-10-2004).

⁶⁵ Inserted by Act 32 of 1999, S.6 (w.e.f. 16-12-1999).

⁶⁶ Substituted by the Securities Laws (Amendment) Act, 2004, S.10, for “shall, on conviction, be punishable with fine which may extend to one thousand rupees” (w.e.f. 12-10-2004).

⁶⁷ Inserted by Securities Laws (Amendment) Act, 2004, S.11 (w.e.f. 12-10-2004).

Penalty for failure to segregate securities or moneys of client or clients.

23D. If any person, who is registered under section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992) as a stock broker or sub-broker, fails to segregate securities or moneys of the client or clients or uses the securities or moneys of a client or clients for self or for any other client, he shall be liable to a penalty not exceeding one crore rupees.

Penalty for failure to comply with provision of listing conditions or delisting conditions or grounds.

23E. If a company or any person managing collective investment scheme or mutual fund, fails to comply with the listing conditions or delisting conditions or grounds or commits a breach thereof, it or he shall be liable to a penalty not exceeding twenty-five crore rupees.

Penalty for excess dematerialisation or delivery of unlisted securities.

23F. If any issuer dematerialises securities more than the issued securities of a company or delivers in the stock exchanges the securities which are not listed in the recognised stock exchange or delivers securities where no trading permission has been given by the recognised stock exchange, he shall be liable to a penalty not exceeding twenty-five crore rupees.

Penalty for failure to furnish periodical returns, etc.

23G. If a recognised stock exchange fails or neglects to furnish periodical returns to the Securities and Exchange Board of India or fails or neglects to make or amend its rules or bye-laws as directed by the Securities and Exchange Board of India or fails to comply with directions issued by the Securities and Exchange Board of India, such recognised stock exchange shall be liable to a penalty which may extend to twenty-five crore rupees.

Penalty for contravention where no separate penalty has been provided.

23H. Whoever fails to comply with any provision of this Act, the rules or articles or bye-laws or the regulations of the recognised stock exchange or directions issued by the Securities and Exchange Board of India for which no separate penalty has been provided, shall be liable to a penalty which may extend to one crore rupees.

Power to adjudicate.

23-I. (1) For the purpose of adjudging under sections 23A, 23B, 23C, 23D, 23E, 23F, 23G and 23H, the Securities and Exchange Board of India shall appoint any officer not below the rank of a Division Chief of the Securities and Exchange Board of India to be an adjudicating officer for holding an inquiry in the prescribed manner after giving any person concerned a reasonable opportunity of being heard for the purpose of imposing any penalty.

(2) While holding an inquiry, the adjudicating officer shall have power to summon and enforce the attendance of any person acquainted with the facts and circumstances of the case to give evidence or to produce any document, which in the opinion of the

adjudicating officer, may be useful for or relevant to the subject-matter of the inquiry and if, on such inquiry, he is satisfied that the person has failed to comply with the provisions of any of the sections specified in sub-section (1), he may impose such penalty as he thinks fit in accordance with the provisions of any of those sections.

Factors to be taken into account by adjudicating officer.

23J. While adjudging the quantum of penalty under section 23-I, the adjudicating officer shall have due regard to the following factors, namely:—

- (a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;
- (b) the amount of loss caused to an investor or group of investors as a result of the default;
- (c) the repetitive nature of the default.

Crediting sums realised by way of penalties to Consolidated Fund of India.

23K. All sums realised by way of penalties under this Act shall be credited to the Consolidated Fund of India.

Appeal to Securities Appellate Tribunal.

23L. (1) Any person aggrieved, by the order or decision of the recognised stock exchange or the adjudicating officer or any order made by the Securities and Exchange Board of India under section 4B, may prefer an appeal before the Securities Appellate Tribunal and the provisions of sections 22B, 22C, 22D and 22E of this Act, shall apply, as far as may be, to such appeals.

(2) Every appeal under sub-section (1) shall be filed within a period of forty-five days from the date on which a copy of the order or decision is received by the appellant and it shall be in such form and be accompanied by such fee as may be prescribed:

Provided that the Securities Appellate Tribunal may entertain an appeal after the expiry of the said period of forty-five days if it is satisfied that there was sufficient cause for not filing it within that period.

(3) On receipt of an appeal under sub-section (1), the Securities Appellate Tribunal may, after giving the parties to the appeal, an opportunity of being heard, pass such orders thereon as it thinks fit, confirming, modifying or setting aside the order appealed against.

(4) The Securities Appellate Tribunal shall send a copy of every order made by it to the parties to the appeal and to the concerned adjudicating officer.

(5) The appeal filed before the Securities Appellate Tribunal under sub-section (1) 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.

Offences.

23M. (1) Without prejudice to any award of penalty by the adjudicating officer under this Act, if any person contravenes or attempts to contravene or abets the contravention of the

provisions of this Act or of any rules or regulations or bye-laws made there under, for which no punishment is provided elsewhere in this Act, he shall be punishable with imprisonment for a term which may extend to ten years, or with fine, which may extend to twenty-five crore rupees or with both.

(2) If any person fails to pay the penalty imposed by the adjudicating officer or fails to comply with any of his directions or orders, he shall be punishable with imprisonment for a term which shall not be less than one month but which may extend to ten years, or with fine, which may extend to twenty-five crore rupees, or with both.

Composition of certain offences.

23N. Notwithstanding anything contained in the Code of Criminal Procedure, 1973 (2 of 1974), any offence punishable under this Act, not being an offence punishable with imprisonment only, or with imprisonment and also with fine, may either before or after the institution of any proceeding, be compounded by a Securities Appellate Tribunal or a court before which such proceedings are pending.

Power to grant immunity.

23-O. (1) The Central Government may, on recommendation by the Securities and Exchange Board of India, if the Central Government is satisfied, that any person, who is alleged to have violated any of the provisions of this Act or the rules or the regulations made there under, has made a full and true disclosure in respect of alleged violation, grant to such person, subject to such conditions as it may think fit to impose, immunity from prosecution for any offence under this Act, or the rules or the regulations made there under or also from the imposition of any penalty under this Act with respect to the alleged violation:

Provided that no such immunity shall be granted by the Central Government in cases where the proceedings for the prosecution for any such offence have been instituted before the date of receipt of application for grant of such immunity:

Provided further that the recommendation of the Securities and Exchange Board of India under this sub-section shall not be binding upon the Central Government.

(2) An immunity granted to a person under sub-section (1) may, at any time, be withdrawn by the Central Government, if it is satisfied that such person had, in the course of the proceedings, not complied with the condition on which the immunity was granted or had given false evidence, and thereupon such person may be tried for the offence with respect to which the immunity was granted or for any other offence of which he appears to have been guilty in connection with the contravention and shall also become liable to the imposition of any penalty under this Act to which such person would have been liable, had not such immunity been granted.]

Offences by companies.

24. (1) Where an offence has been committed by a company, every person who, at the time when the offence was committed, was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence, and shall be liable to be proceeded against and

punished accordingly:

Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent the commission of such offence.

(2) Notwithstanding anything contained in sub-section (1), where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to any gross negligence on the part of any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer of the company, shall also be deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

Explanation.— For the purpose of this section,—

(a) “company” means any body corporate and includes a firm or other association of individuals, and

⁶⁸[(b) “director”, in relation to—

(i) a firm, means a partner in the firm;

(ii) any association of persons or a body of individuals, means any member controlling the affairs thereof.]

⁶⁹ [(3) The provisions of this section shall be in addition to, and not in derogation of, the provisions of section 22A].

Certain offences to be cognizable.

25. Notwithstanding anything contained in the Code of Criminal Procedure, 1898 (5 of 1898), any offence punishable under ⁷⁰ [***] section 23 shall be deemed to be a cognizable offence within the meaning of that Code.

⁷¹ **[Cognizance of offences by courts.]**

26. (1) No court shall take cognizance of any offence punishable under this Act or any rules or regulations or bye-laws made thereunder, save on a complaint made by the Central Government or State Government or the Securities and Exchange Board of India or a recognised stock exchange or by any person.

(2) No court inferior to that of a Court of Session shall try any offence punishable under this Act.]

⁶⁸ Substituted by the Securities Laws (Amendment) Act, 1999 (w.e.f. 22.02.2000). Prior to its substitution, sub-clause (b) read as under: ‘director’, in relation to a firm, means a partner in the firm.”

⁶⁹ Inserted by Act 40 of 1985, S.3 (w.e.f. 17-01-1986).

⁷⁰ The words “sub-section (1) of” omitted by the Securities Laws (Amendment) Act, 2004, S.12 (w.e.f. 12-10-2004).

⁷¹ Section 26 substituted vide The Securities Laws (Amendment) Act, 2004. Prior to substitution, it read as under;

"No court inferior to that of a presidency magistrate or a magistrate of the first class shall take cognizable of or try any offence punishable under this Act."

MISCELLANEOUS

Title to dividends.

27. (1) It shall be lawful for the holder of any security whose name appears on the books of the company issuing the said security to receive and retain any dividend declared by the company in respect thereof for any year, notwithstanding that the said security has already been transferred by him for consideration, unless the transferee who claims the dividend from the transferor has lodged the security and all other documents relating to the transfer which may be required by the company with the company for being registered in his name within fifteen days of the date on which the dividend became due.

Explanation.— The period specified in this section shall be extended—

- (i) in case of death of the transferee, by the actual period taken by his legal representative to establish his claim to the dividend;
- (ii) in case of loss of the transfer deed by theft or any other cause beyond the control of the transferee, by the actual period taken for the replacement thereof; and
- (iii) in case of delay in the lodging of any security and other documents relating to the transfer due to causes connected with the post, by the actual period of the delay.

(2) Nothing contained in sub-section (1) shall affect—

- (a) the right of a company to pay any dividend which has become due to any person whose name is for the time being registered in the books of the company as the holder of the security in respect of which the dividend has become due; or
- (b) the right of the transferee of any security to enforce against the transferor or any other person his rights, if any, in relation to the transfer in any case where the company has refused to register the transfer of the security in the name of the transferee.

⁷²[**Right to receive income from collective investment scheme.**

27A. (1) It shall be lawful for the holder of any securities, being units or other instruments issued by the collective investment scheme, whose name appears on the books of the collective investment scheme issuing the said security to receive and retain any income in respect of units or other instruments issued by the collective investment scheme declared by the collective investment scheme in respect thereof for any year, notwithstanding that the said security, being units or other instruments issued by the collective investment scheme, has already been transferred by him for consideration, unless the transferee who claims the income in respect of units or other instruments issued by the collective investment scheme from the transfer or has lodged the security and all other documents relating to the transfer which may be required by the collective investment scheme with the collective investment scheme for being registered in his name within fifteen days of the date on which the income in respect of units or other instruments issued by the collective investment scheme became due.

⁷² Inserted by Act 31 of 1999, S.8 (w.e.f. 22-02-2000).

Explanation.— The period specified in this section shall be extended—

- (i) in case of death of the transferee, by the actual period taken by his legal representative to establish his claim to the income in respect of units or other instrument issued by the collective investment scheme;
 - (ii) in case of loss of the transfer deed by theft or any other cause beyond the control of the transferee, by the actual period taken for the replacement thereof; and
 - (iii) in case of delay in the lodging of any security, being units or other instruments issued by the collective investment scheme, and other documents relating to the transfer due to causes connected with the post, by the actual period of the delay.
- (2) Nothing contained in sub-section (1) shall affect—
- (a) the right of a collective investment scheme to pay any income from units or other instruments issued by the collective investment scheme which has become due to any person whose name is for the time being registered in the books of the collective investment scheme as the holder of the security being units or other instruments issued by the collective investment scheme in respect of which the income in respect of units or other instruments issued by the collective scheme has become due; or
 - (b) the right of transferee of any security, being units or other instruments issued by the collective investment scheme, to enforce against the transferor or any other person his rights, if any, in relation to the transfer in any case where the company has refused to register the transfer of the security being units or other instruments issued by the collective investment scheme in the name of the transferee.]

⁷³**[Right to receive income from mutual fund.**

27B. (1) It shall be lawful for the holder of any securities, being units or other instruments issued by any mutual fund, whose name appears on the books of the mutual fund issuing the said security to receive and retain any income in respect of units or other instruments issued by the mutual fund declared by the mutual fund in respect thereof for any year, notwithstanding that the said security, being units or other instruments issued by the mutual fund, has already been transferred by him for consideration, unless the transferee who claims the income in respect of units or other instruments issued by the mutual fund from the transferor has lodged the security and all other documents relating to the transfer which may be required by the mutual fund with the mutual fund for being registered in his name within fifteen days of the date on which the income in respect of units or other instruments issued by the mutual fund became due.

Explanation.— The period specified in this section shall be extended—

- (i) in case of death of the transferee, by the actual period taken by his legal representative to establish his claim to the income in respect of units or other instrument issued by the mutual fund;
- (ii) in case of loss of the transfer deed by theft or any other cause beyond the control of transferee, by the actual period taken for the replacement thereof; and

⁷³ Inserted by the Securities Laws (Amendment) Act, 2004, S.14 (w.e.f. 12-10-2004).

- (iii) in case of delay in the lodging of any security, being units or other instruments issued by the mutual fund, and other documents relating to the transfer due to causes connected with the post, by the actual period of the delay.

(2) Nothing contained in sub-section (1) shall affect—

- (a) the right of a mutual fund to pay any income from units or other instruments issued by the mutual fund which has become due to any person, whose name is for the time being registered in the books of the mutual fund as the holder of the security being units or other instruments issued by the mutual fund in respect of which the income in respect of units or other instruments issued by the mutual fund has become due; or
- (b) the right of transferee of any security, being units or other instruments issued by the mutual fund, to enforce against the transferor or any other person, his rights, if any, in relation to the transfer in any case where the mutual fund has refused to register the transfer of the security being units or other instruments issued by the mutual fund in the name of the transferee.]

⁷⁴ **[Act not to apply in certain cases.**

28. (1) The provisions of this Act shall not apply to—

- (a) the Government, the Reserve Bank of India, any local authority or any corporation set-up by a special law or any person who has effected any transaction with or through the agency of any such authority as is referred to in this clause;
- (b) any convertible bond or share warrant or any option or right in relation thereto, insofar as it entitles the person in whose favour any of the foregoing has been issued to obtain at his option from the company or other body corporate, issuing the same or from any of its shareholders or duly appointed agents' shares of the company or other body corporate, whether by conversion of the bond or warrant or otherwise, on the basis of the price agreed upon when the same was issued.

(2) Without prejudice to the provisions contained in sub-section (1), if the Central Government¹ is satisfied that in the interests of trade and commerce or the economic development of the country it is necessary or expedient so to do, it may, by notification in the Official Gazette, specify any class of contracts as contracts to which this Act or any provision contained therein shall not apply, and also the conditions, limitations or restrictions, if any, subject to which it shall not so apply.

Protection of action taken in good faith.

29. No suit, prosecution or other legal proceeding whatsoever shall lie in any court against the governing body or any member, office bearer or servant of any recognised stock exchange or against any person or persons appointed under sub-section (1) of section 11 for anything which is in good faith done or intended to be done in pursuance of this Act or of any rules or bye-laws made there under.

⁷⁴ Substituted by Act 49 of 1959, S.3, for S.28.

⁷⁵**[Power to delegate.**

29A. The Central Government may, by order published in the Official Gazette, direct that the powers (except the power under section 30) exercisable by it under any provision of this Act shall, in relation to such matters and subject to such conditions, if any, as may be specified in the order, be exercisable also by the Securities and Exchange Board of India or the Reserve Bank of India constituted under section 3 of the Reserve Bank of India Act, 1934 (2 of 1934).]

Power to make rules.

30. (1) The Central Government may, by notification in the Official Gazette, make rules for the purpose of carrying into effect the objects of this Act.

(2) In particular, and without prejudice to the generality of the foregoing power, such rules may provide for,—

- (a) the manner in which applications may be made, the particulars which they should contain and the levy of a fee in respect of such applications;
- (b) the manner in which any inquiry for the purpose of recognising any stock exchange may be made, the conditions which may be imposed for the grant of such recognition, including conditions as to the admission of members if the stock exchange concerned is to be the only recognised stock exchange in the area; and the form in which such recognition shall be granted;
- (c) the particulars which should be contained in the periodical returns and annual reports to be furnished to the Central Government;
- (d) the documents which should be maintained and preserved under section 6 and the periods for which they should be preserved;
- (e) the manner in which any inquiry by the governing body of a stock exchange shall be made under section 6;
- (f) the manner in which the bye-laws to be made or amended under this Act shall before being so made or amended be published for criticism;
- (g) the manner in which applications may be made by dealers in securities for licences under section 17, the fee payable in respect thereof and the period of such licences, the conditions subject to which licences may be granted, including conditions relating to the forms which may be used in making contracts, the documents to be maintained by licensed dealers and the furnishing of periodical information to such authority as may be specified and the revocation of licences for breach of conditions;

⁷⁶**[(h) the requirements which shall be complied with—**

- (A) by public companies for the purpose of getting their securities listed on any stock exchange;
- (B) by collective investment scheme for the purpose of getting their units listed

⁷⁵ Substituted by Act 31 of 1999, S.9, for S.29-A (w.e.f. 22-02-2000).

⁷⁶ Substituted by the Securities Laws (Amendment) Act, 1999 w.e.f. 22.02.2000. Prior to its substitution, clause (h) read as under: “the requirement which shall be complied with by public companies for the purpose of getting their securities listed on any stock exchange ; and”.

on any stock exchange;]

- ⁷⁷ [(ha) the grounds on which the securities of a company may be delisted from any recognised stock exchange under sub-section (1) of section 21A;
- (hb) the form in which an appeal may be filed before the Securities Appellate Tribunal under sub-section (2) of section 21A and the fees payable in respect of such appeal;
- (hc) the form in which an appeal may be filed before the Securities Appellate Tribunal under section 22A and the fees payable in respect of such appeal;
- (hd) the manner of inquiry under sub-section (1) of section 23-I;
- (he) the form in which an appeal may be filed before the Securities Appellate Tribunal under section 23L and the fees payable in respect of such appeal;]
- (i) any other matter which is to be or may be prescribed.

⁷⁸ [(3) Every rule made under this Act shall be laid, as soon as may be after it is made, before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the rule or both Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.]

⁷⁹ **[Power of Securities and Exchange Board of India to make regulations.]**

31. (1) Without prejudice to the provisions contained in section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Securities and Exchange Board of India may, by notification in the Official Gazette, make regulations consistent with the provisions of this Act and the rules made there under to carry out the purposes of this Act.

(2) In particular and without prejudice to the generality of the foregoing power, such regulations may provide for the manner in which at least fifty-one per cent of equity share capital of a recognised stock exchange is held within twelve months from the date of publication of the order under sub-section (7) of section 4B by the public other than

⁷⁷ Substituted vide The Securities Laws (Amendment) Act, 2004, prior to substitution clause (ha) read as under "the form in which an appeal may be filed before the Securities Appellate Tribunal under section 22A and the fees payable in respect of such appeal."

⁷⁸ Substituted vide The Securities Laws (Amendment) Act, 2004, Prior to substitution, it read as under;
" Every rule made under this section 24[***] shall, as soon as may be, after its publication in the Official Gazette, be laid before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive session aforesaid, both Houses agree in making any modification in the rule or both Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified forms or be of no effect, as the case may be; so, however that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule."

⁷⁹ Inserted by the Securities Laws (Amendment) Act, 2004, S.14 (w.e.f. 12-10-2004).

the shareholders having trading rights under sub-section (8) of that section.

(3) Every regulation made under this Act shall be laid, as soon as may be after it is made, before each House of Parliament, while it is in session for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the regulation or both Houses agree that the regulation should not be made, the regulation shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that regulation.]

The Securities Contracts (Regulation) Act, 1956 Executive Summary PDF

Introduction to the Securities Contracts (Regulation) Act, 1956 Executive Summary PDF

The Securities Contracts (Regulation) Act, 1956 — widely known as the SCRA — stands as one of the earliest and most significant legislations governing India's securities market. Enacted at a time when trading in securities lacked structure, the Act introduced a legal framework that brought order, transparency, and credibility to an otherwise fragmented system.

Before 1956, India's securities market operated through loosely organised exchanges and unregulated brokers. There were no consistent standards for contracts, and speculative trading often led to manipulation and investor losses. With limited legal oversight, fraudulent transactions were common, eroding public confidence in securities as a legitimate investment instrument.

The SCRA, 1956 was introduced to correct these inefficiencies. It provided a centralised legal foundation for regulating securities contracts and stock exchanges across the country. The law aimed to establish fair practices in trading, prevent market abuse, and ensure that securities transactions occurred within recognised, well-regulated exchanges. In doing so, it created a sense of reliability that encouraged broader public participation in India's financial markets.

Historical Context and Background

The roots of the SCRA can be traced to the post-independence economic reforms of the early 1950s. The Government of India recognised that to support industrial growth, capital markets needed legal order and investor protection. Unregulated trading had led to sharp price fluctuations and irregular settlements, which made investors wary of market participation.

The introduction of the Securities Contracts (Regulation) Bill, 1956 sought to address these issues. It was designed not only to regulate stock exchanges but also to define what constituted a valid securities contract. This legal clarity marked a turning point in India's financial regulation, transforming the securities market into a more transparent and enforceable space.

Need for Regulatory Intervention and Investor Protection

The SCRA recognised that free markets without oversight could not guarantee fairness. By empowering the Central Government to recognise and regulate stock exchanges, the Act ensured that only legitimate platforms could facilitate securities trading. It made speculative and unauthorised contracts unlawful, laying the foundation for ethical market behaviour.

Investor protection was central to this reform. By formalising securities contracts, introducing standardised settlement systems, and prohibiting manipulative trading, the SCRA restored trust in market operations. Over time, these principles became the backbone of India's modern financial regulatory framework.

Purpose and Objectives of the Act

The primary objectives of the SCRA, 1956 Executive Summary PDF are:

1. To regulate and control transactions in securities.
2. To ensure the functioning of fair and transparent stock exchanges.
3. To protect investors from fraudulent and speculative practices.
4. To standardise contracts and procedures across exchanges.
5. To promote confidence in India's capital markets through legal certainty.

Each of these objectives worked collectively to create a regulated market structure where both institutions and individuals could trade securely.

Structure and Significance of the Act

The SCRA consists of detailed provisions that define what constitutes valid trading, specify the conditions for recognising stock exchanges, and empower regulators to supervise them. It also lays down the legal consequences of unauthorised trading and establishes a compliance mechanism that continues to evolve with India's financial landscape.

Over time, the Act's importance has only grown. It serves as the foundation for subsequent laws like the SEBI Act, 1992 and the Depositories Act, 1996 — both of which operate in harmony with the SCRA's principles. The Act has proven its adaptability, transitioning from paper-based trading to today's electronic, technology-driven securities markets while maintaining its original intent of fairness and regulation.

Objectives and Scope of the Securities Contracts (Regulation) Act, 1956 Executive Summary PDF

The Securities Contracts (Regulation) Act, 1956 was introduced at a time when India's securities market needed stability and trust. The government recognised that for a young economy to attract investment, the securities market had to move beyond informal trading practices and adopt a structure governed by law. The SCRA was therefore not just a regulatory measure but a foundational step towards building a transparent and credible capital market.

Before the Act, trading in securities was often carried out in an unorganised manner through local associations, without uniform procedures or oversight. Manipulation, speculation, and insider dealings were frequent. There was no legal distinction between a genuine market transaction and an unauthorised one. The absence of defined contracts or recognised exchanges left investors vulnerable. The SCRA addressed this by introducing a uniform legal framework that ensured accountability at every stage of a securities transaction.

Objectives of the Act

The Act was enacted with the goal of transforming the securities market into a structured, fair, and transparent system. Its key objectives can be summarised as follows:

1. **To bring regulation and order to securities trading** – Ensuring that every contract in securities is standardised and executed only through recognised exchanges.
2. **To prevent fraudulent and speculative practices** – Prohibiting unauthorised dealings and unfair market activities that distort prices and harm investors.
3. **To protect investor interests** – Providing safeguards that promote confidence in securities as an investment option.
4. **To establish uniformity in market operations** – Introducing consistency in trading rules and settlement systems across the country.
5. **To empower regulatory oversight** – Giving the government and SEBI authority to supervise exchanges and enforce discipline when necessary.

Each objective reflects the Act's underlying intent: to transform trading from a loosely governed activity into a transparent, regulated system that benefits the economy as a whole.

Scope and Application

The SCRA applies to every segment of securities trading in India. It governs stock exchanges, brokers, sub-brokers, and companies that issue or list securities. Its reach extends to all contracts and transactions involving securities — including shares, bonds, debentures, government securities, and derivatives.

The Act ensures that trading takes place only through recognised stock exchanges. It also defines the conditions under which contracts are valid, the obligations of intermediaries, and the circumstances under which recognition can be withdrawn. By doing so, it prevents parallel or illegal markets from functioning outside the legal framework.

The law applies equally to companies seeking to raise capital, intermediaries facilitating trade, and investors participating in it. This balance makes it one of the most comprehensive pieces of financial legislation in India's history.

Contribution to India's Financial Development

When introduced, the SCRA aligned with India's broader vision of industrial and economic reform. The government understood that a well-regulated capital market was essential for mobilising domestic savings and attracting institutional investment. By ensuring fairness in securities trading, the Act encouraged public participation in the market — an important factor for economic expansion in the decades that followed.

The Securities Contracts (Regulation) Act, 1956 Executive Summary PDF illustrates that this legislation was not limited to preventing malpractice; it aimed to promote confidence. It made compliance an essential part of market growth and created a system where both investors and issuers could operate with a shared sense of security.

Coordination with Other Financial Laws

The effectiveness of the SCRA lies in how it integrates with other laws. Over time, it has worked in coordination with the SEBI Act, 1992, the Companies Act, 2013, and the Depositories Act, 1996. Together, these laws form a connected network of regulation that governs every stage of securities issuance, trading, and settlement.

The SCRA laid the foundation, and later laws refined it. Even today, stock exchanges, brokers, and intermediaries operate within the framework first defined by this Act, with SEBI providing continuous supervision.

Objectives and Scope of the Securities Contracts (Regulation) Act, 1956 Executive Summary PDF

The Securities Contracts (Regulation) Act, 1956 was introduced at a time when India's securities market needed stability and trust. The government recognised that for a young economy to attract investment, the securities market had to move beyond informal trading practices and adopt a structure governed by law. The SCRA was therefore not just a regulatory measure but a foundational step towards building a transparent and credible capital market.

Before the Act, trading in securities was often carried out in an unorganised manner through local associations, without uniform procedures or oversight. Manipulation, speculation, and insider dealings were frequent. There was no legal distinction between a genuine market transaction and an unauthorised one. The absence of defined contracts or recognised exchanges left investors vulnerable. The SCRA addressed this by introducing a uniform legal framework that ensured accountability at every stage of a securities transaction.

Objectives of the Act

The Act was enacted with the goal of transforming the securities market into a structured, fair, and transparent system. Its key objectives can be summarised as follows:

1. **To bring regulation and order to securities trading** – Ensuring that every contract in securities is standardised and executed only through recognised exchanges.
2. **To prevent fraudulent and speculative practices** – Prohibiting unauthorised dealings and unfair market activities that distort prices and harm investors.

3. **To protect investor interests** – Providing safeguards that promote confidence in securities as an investment option.
4. **To establish uniformity in market operations** – Introducing consistency in trading rules and settlement systems across the country.
5. **To empower regulatory oversight** – Giving the government and SEBI authority to supervise exchanges and enforce discipline when necessary.

Each objective reflects the Act's underlying intent: to transform trading from a loosely governed activity into a transparent, regulated system that benefits the economy as a whole.

Scope and Application

The SCRA applies to every segment of securities trading in India. It governs stock exchanges, brokers, sub-brokers, and companies that issue or list securities. Its reach extends to all contracts and transactions involving securities — including shares, bonds, debentures, government securities, and derivatives.

The Act ensures that trading takes place only through recognised stock exchanges. It also defines the conditions under which contracts are valid, the obligations of intermediaries, and the circumstances under which recognition can be withdrawn. By doing so, it prevents parallel or illegal markets from functioning outside the legal framework.

The law applies equally to companies seeking to raise capital, intermediaries facilitating trade, and investors participating in it. This balance makes it one of the most comprehensive pieces of financial legislation in India's history.

Contribution to India's Financial Development

When introduced, the SCRA aligned with India's broader vision of industrial and economic reform. The government understood that a well-regulated capital market was essential for mobilising domestic savings and attracting institutional investment. By ensuring fairness in securities trading, the Act encouraged public participation in the market — an important factor for economic expansion in the decades that followed.

The Securities Contracts (Regulation) Act, 1956 Executive Summary PDF illustrates that this legislation was not limited to preventing malpractice; it aimed to promote confidence. It made compliance an essential part of market growth and created a system where both investors and issuers could operate with a shared sense of security.

Coordination with Other Financial Laws

The effectiveness of the SCRA lies in how it integrates with other laws. Over time, it has worked in coordination with the SEBI Act, 1992, the Companies Act, 2013, and the Depositories Act, 1996. Together, these laws form a connected network of regulation that governs every stage of securities issuance, trading, and settlement.

The SCRA laid the foundation, and later laws refined it. Even today, stock exchanges, brokers, and intermediaries operate within the framework first defined by this Act, with SEBI providing continuous supervision.

Regulation of Stock Exchanges in India under the Securities Contracts (Regulation) Act, 1956 Executive Summary PDF

The Securities Contracts (Regulation) Act, 1956 brought India's stock exchanges under a clear legal framework for the first time. Before its enactment, trading platforms across the country operated independently, often following informal rules that lacked uniformity or government oversight. The absence

of regulation allowed speculation, insider trading, and manipulation to flourish — practices that weakened public faith in the market.

The SCRA, 1956 changed that landscape. It recognised stock exchanges as central institutions of the securities market and made their regulation a matter of public interest. The Act established a system where only authorised and well-governed exchanges could operate, ensuring that every securities transaction was fair, transparent, and traceable.

Purpose of Regulating Stock Exchanges

The regulation of stock exchanges under the Act serves several crucial purposes:

1. To ensure orderly trading and prevent market manipulation.
2. To maintain transparency in price discovery and transactions.
3. To protect investors from fraudulent practices and misinformation.
4. To bring consistency in the functioning of exchanges across India.
5. To support the growth of a healthy, disciplined capital market.

By placing exchanges under government supervision, the Act made the securities market more predictable and credible — a necessary step for the financial stability of a developing nation.

Recognition of Stock Exchanges

Under the SCRA, a stock exchange cannot operate without formal recognition from the Central Government. This recognition is granted only when the exchange meets certain standards of governance, transparency, and financial stability.

The process involves:

- Submitting detailed rules, by-laws, and operational procedures to the government.
- Demonstrating adequate infrastructure for record-keeping, settlement, and surveillance.
- Ensuring that management and members of the exchange follow ethical trading standards.
- Maintaining financial soundness and adequate systems to protect investor interests.

Once recognition is granted, the exchange becomes a *recognised stock exchange* under the Act — authorised to conduct trading in approved securities under government and SEBI supervision.

Responsibilities of Recognised Stock Exchanges

Recognition is not permanent or unconditional. The SCRA places continuous obligations on recognised stock exchanges to ensure that their operations remain compliant and transparent. These include:

- Adhering to the rules and by-laws approved by the government.
- Monitoring and disciplining brokers and members for violations.
- Maintaining proper records of all trades and settlements.
- Submitting periodic reports and returns to the regulator.
- Cooperating with SEBI and other authorities in investigations and audits.

If a recognised exchange fails to uphold these responsibilities, the government or SEBI has the power to withdraw recognition, suspend operations, or impose penalties.

Role of SEBI in Supervising Stock Exchanges

When SEBI became the principal regulator of the securities market in 1992, it assumed many of the powers originally vested in the Central Government under the SCRA. Today, SEBI's role includes:

- Granting and renewing recognition to stock exchanges.
- Approving amendments to exchange by-laws and regulations.
- Conducting inspections and monitoring trading activity.
- Investigating cases of market manipulation or insider trading.
- Ensuring fair access, transparency, and investor protection.

This transfer of regulatory authority from the government to SEBI made market supervision more specialised and effective, aligning India's system with international standards.

Prohibition of Unrecognised Exchanges

To maintain market discipline, the Act prohibits any exchange from operating without government or SEBI recognition. Unrecognised exchanges are barred from facilitating securities transactions, and any contracts executed through them are declared illegal and void.

This provision protects investors from unregulated trading platforms and ensures that every securities transaction occurs within a legitimate, auditable system. It also eliminates the risks associated with parallel or speculative markets that operate outside the law.

Securities Contracts Regulation and Prohibition of Unlawful Trading under the Securities Contracts (Regulation) Act, 1956 Executive Summary PDF

The Securities Contracts (Regulation) Act, 1956 introduced a much-needed order into India's securities market by clearly defining what constitutes a lawful transaction and by prohibiting practices that distort market integrity. Before this law, unrecognised trading platforms and private brokers operated without supervision. Contracts were made informally, often leading to disputes, price manipulation, and investor losses. The Act brought structure and credibility to this environment by ensuring that every securities contract operated within the boundaries of legality.

The SCRA established that only trades conducted through recognised stock exchanges are valid and enforceable. This single provision re-shaped India's financial markets. It distinguished legitimate trading from speculative and unauthorised activity, making every securities transaction traceable and verifiable.

Purpose Behind Prohibiting Unlawful Trading

The prohibition of unlawful trading serves several key objectives that together protect market integrity and investor confidence:

1. To eliminate speculative or fraudulent trading outside regulated exchanges.
2. To prevent manipulation of prices and insider activity.
3. To ensure that every trade can be audited and verified through proper records.
4. To safeguard small investors from unregulated brokers and false promises.
5. To maintain fair and transparent trading conditions across all recognised markets.

By making unauthorised trading illegal, the Act turned investor protection from an ideal into a practical, enforceable reality.

Legal Recognition of Contracts

Under the SCRA, only *recognised stock exchanges* may facilitate securities trading. Section 13 of the Act

makes it clear that contracts entered into through unrecognised exchanges are void and unenforceable by law. This ensures that:

- Every transaction passes through systems that maintain full audit trails.
- Exchange authorities and SEBI can monitor trades for compliance.
- Market participants cannot bypass regulations to engage in speculative behaviour.

This clarity also simplifies enforcement — since only recognised trades carry legal standing, disputes can be resolved efficiently, and the scope for manipulation is reduced.

Spot Delivery and Forward Contracts

The distinction between *spot delivery contracts* and *forward contracts* forms another critical element of the law.

- **Spot delivery contracts** involve the transfer of securities and payment within one working day. These are fully legal and valid.
- **Forward or speculative contracts**, unless conducted through recognised exchanges and under SEBI's approval, are prohibited.

This framework was designed to curb excessive speculation that destabilised the market in the pre-reform era. It encourages genuine investment and discourages price gambling based on short-term speculation.

SEBI's Enforcement Role

With SEBI assuming regulatory authority, the enforcement of these provisions has become more dynamic and technology-driven. SEBI monitors market behaviour, detects suspicious trading patterns, and takes swift action against violations. Its functions include:

- Investigating unauthorised trading activities and coordinating with enforcement agencies.
- Imposing monetary penalties and suspending erring brokers or participants.
- Issuing directives to exchanges for preventive or corrective action.
- Ensuring that new trading instruments, such as derivatives, are introduced only within the legal scope of the SCRA.

This continuous oversight strengthens market discipline and reinforces investor confidence in India's financial system.

Penalties for Unlawful Trading

The Act provides specific penalties for engaging in unauthorised or fraudulent trading. Depending on the nature of the violation, these may include:

- Monetary fines imposed by SEBI or the Central Government.
- Suspension or cancellation of registration for brokers or intermediaries.
- Criminal prosecution for deliberate market manipulation or insider trading.
- Disqualification of members involved in unrecognised or illegal exchanges.

These penalties underline that trading in securities is a regulated privilege, not a casual or unmonitored activity.

Licensing and Regulation of Brokers, Sub-Brokers, and Intermediaries under the Securities

Contracts (Regulation) Act, 1956 Executive Summary PDF

The Securities Contracts (Regulation) Act, 1956 recognised that the conduct of brokers and intermediaries directly determines the credibility of the securities market. Brokers act as the bridge between investors and stock exchanges, and their integrity affects every transaction executed in the market. Before the SCRA came into force, brokerage activities were largely unregulated — anyone could claim to be a broker, and trading was often carried out on verbal assurances without documentation or accountability.

By bringing brokers, sub-brokers, and other intermediaries under a structured licensing system, the Act ensured that only qualified and accountable professionals could participate in securities trading. This reform not only reduced malpractice but also created a standard of professionalism that shaped the modern Indian brokerage industry.

Purpose of Regulating Brokers and Intermediaries

The regulation of brokers and market intermediaries under the SCRA, 1956 Executive Summary PDF had a clear and practical purpose. It was meant to:

1. Protect investors from unauthorised or fraudulent brokers.
2. Promote transparency and ethical conduct in securities transactions.
3. Establish uniform standards for registration and operation.
4. Enable government and SEBI oversight over brokerage activities.
5. Build confidence in the market by ensuring that all intermediaries act responsibly.

The inclusion of these objectives reflected the government's understanding that investor protection was not possible without professionalising the role of intermediaries.

Licensing Requirements

Under the Act, no person can act as a broker or sub-broker unless they are registered with a recognised stock exchange and approved by SEBI. The registration process requires compliance with prescribed eligibility criteria related to capital adequacy, infrastructure, and conduct.

The process includes:

- Submission of detailed application forms with financial and operational disclosures.
- Verification of business credentials and integrity of the applicant.
- Payment of prescribed fees and adherence to exchange by-laws.
- Ongoing compliance with SEBI's Code of Conduct for intermediaries.

This licensing system replaced informal trading networks with a transparent and accountable brokerage structure that operates under continuous supervision.

Duties and Responsibilities of Brokers

The Act and subsequent SEBI regulations impose several obligations on brokers to ensure discipline in their operations. A registered broker must:

- Maintain accurate records of all client transactions and account statements.
- Ensure fair dealing and execute orders promptly at prevailing market prices.
- Disclose brokerage charges and other costs clearly to clients.

- Avoid conflicts of interest and prevent misuse of confidential information.
- Report all trades and maintain proper documentation for regulatory review.

By imposing these duties, the law made brokers accountable not only to the exchanges but also to their clients, ensuring ethical conduct across the system.

Regulation of Sub-Brokers and Other Intermediaries

Sub-brokers and other intermediaries — such as clearing members, portfolio managers, and underwriters — also fall within the regulatory scope of the SCRA. They act as extensions of registered brokers and must follow the same principles of integrity, disclosure, and accountability.

Their responsibilities include:

- Assisting in trade execution and settlement on behalf of clients.
- Ensuring client instructions are followed without deviation.
- Maintaining proper records and cooperating with audits or inspections.
- Complying with the code of conduct issued by SEBI and the respective stock exchange.

This comprehensive regulation ensures that every participant involved in the trading chain functions under a uniform standard of responsibility.

SEBI's Oversight and Enforcement Powers

The SCRA originally gave the Central Government the authority to supervise brokers, but these powers were later transferred to SEBI for more effective enforcement. SEBI's role now includes:

- Granting and renewing registrations for brokers and sub-brokers.
- Conducting regular inspections of their books and systems.
- Enforcing disciplinary actions such as suspension or cancellation of licences.
- Imposing monetary penalties for violations or misconduct.
- Issuing operational guidelines to adapt to emerging market practices.

This continuous regulatory engagement ensures that brokerage activities remain fair, transparent, and consistent with investor interests.

Investor Grievance and Redressal

The Act also paved the way for structured grievance mechanisms. If an investor faces misconduct or malpractice by a broker, they can file a complaint with the concerned stock exchange or SEBI. Exchanges are required to set up arbitration and dispute-resolution forums, providing investors with affordable and time-bound remedies.

This system of redressal made investor protection a practical reality and reinforced confidence in using regulated brokerage services.

Licensing and Regulation of Brokers, Sub-Brokers, and Intermediaries under the Securities Contracts (Regulation) Act, 1956 Executive Summary PDF

The Securities Contracts (Regulation) Act, 1956 recognised that the conduct of brokers and intermediaries directly determines the credibility of the securities market. Brokers act as the bridge between investors and stock exchanges, and their integrity affects every transaction executed in the market. Before the SCRA came into force, brokerage activities were largely unregulated — anyone could

claim to be a broker, and trading was often carried out on verbal assurances without documentation or accountability.

By bringing brokers, sub-brokers, and other intermediaries under a structured licensing system, the Act ensured that only qualified and accountable professionals could participate in securities trading. This reform not only reduced malpractice but also created a standard of professionalism that shaped the modern Indian brokerage industry.

Purpose of Regulating Brokers and Intermediaries

The regulation of brokers and market intermediaries under the SCRA, 1956 Executive Summary PDF had a clear and practical purpose. It was meant to:

1. Protect investors from unauthorised or fraudulent brokers.
2. Promote transparency and ethical conduct in securities transactions.
3. Establish uniform standards for registration and operation.
4. Enable government and SEBI oversight over brokerage activities.
5. Build confidence in the market by ensuring that all intermediaries act responsibly.

The inclusion of these objectives reflected the government's understanding that investor protection was not possible without professionalising the role of intermediaries.

Licensing Requirements

Under the Act, no person can act as a broker or sub-broker unless they are registered with a recognised stock exchange and approved by SEBI. The registration process requires compliance with prescribed eligibility criteria related to capital adequacy, infrastructure, and conduct.

The process includes:

- Submission of detailed application forms with financial and operational disclosures.
- Verification of business credentials and integrity of the applicant.
- Payment of prescribed fees and adherence to exchange by-laws.
- Ongoing compliance with SEBI's Code of Conduct for intermediaries.

This licensing system replaced informal trading networks with a transparent and accountable brokerage structure that operates under continuous supervision.

Duties and Responsibilities of Brokers

The Act and subsequent SEBI regulations impose several obligations on brokers to ensure discipline in their operations. A registered broker must:

- Maintain accurate records of all client transactions and account statements.
- Ensure fair dealing and execute orders promptly at prevailing market prices.
- Disclose brokerage charges and other costs clearly to clients.
- Avoid conflicts of interest and prevent misuse of confidential information.
- Report all trades and maintain proper documentation for regulatory review.

By imposing these duties, the law made brokers accountable not only to the exchanges but also to their clients, ensuring ethical conduct across the system.

Regulation of Sub-Brokers and Other Intermediaries

Sub-brokers and other intermediaries — such as clearing members, portfolio managers, and underwriters — also fall within the regulatory scope of the SCRA. They act as extensions of registered brokers and must follow the same principles of integrity, disclosure, and accountability.

Their responsibilities include:

- Assisting in trade execution and settlement on behalf of clients.
- Ensuring client instructions are followed without deviation.
- Maintaining proper records and cooperating with audits or inspections.
- Complying with the code of conduct issued by SEBI and the respective stock exchange.

This comprehensive regulation ensures that every participant involved in the trading chain functions under a uniform standard of responsibility.

SEBI's Oversight and Enforcement Powers

The SCRA originally gave the Central Government the authority to supervise brokers, but these powers were later transferred to SEBI for more effective enforcement. SEBI's role now includes:

- Granting and renewing registrations for brokers and sub-brokers.
- Conducting regular inspections of their books and systems.
- Enforcing disciplinary actions such as suspension or cancellation of licences.
- Imposing monetary penalties for violations or misconduct.
- Issuing operational guidelines to adapt to emerging market practices.

This continuous regulatory engagement ensures that brokerage activities remain fair, transparent, and consistent with investor interests.

Investor Grievance and Redressal

The Act also paved the way for structured grievance mechanisms. If an investor faces misconduct or malpractice by a broker, they can file a complaint with the concerned stock exchange or SEBI.

Exchanges are required to set up arbitration and dispute-resolution forums, providing investors with affordable and time-bound remedies.

This system of redressal made investor protection a practical reality and reinforced confidence in using regulated brokerage services.

Recognition and Governance of Stock Exchanges under the Securities Contracts (Regulation) Act, 1956 Executive Summary PDF

The Securities Contracts (Regulation) Act, 1956 places stock exchanges at the centre of India's securities market. A stock exchange is not just a trading platform; it is a public institution that must uphold fairness, transparency, and investor confidence. Recognising this importance, the Act introduced a detailed system of recognition and governance to ensure that every exchange operates with integrity and under close supervision.

Prior to the SCRA, stock exchanges in India functioned as private associations. Their internal rules were often inconsistent, and many lacked effective monitoring systems. The SCRA brought uniformity by establishing legal recognition, defined responsibilities, and continuous oversight. This move transformed exchanges from informal networks into regulated market institutions that could support India's growing

financial ambitions.

Recognition of Stock Exchanges

Recognition under the SCRA is a legal authorisation that allows an exchange to operate as a legitimate marketplace for securities trading. Without this recognition, no exchange can legally function in India.

To qualify for recognition, an exchange must:

1. **Submit an application** to the Central Government or SEBI along with its constitution, by-laws, and trading rules.
2. **Demonstrate financial stability** and the capacity to maintain investor confidence.
3. **Establish a governance structure** that ensures accountability and impartial management.
4. **Adopt fair rules of membership** that prevent concentration of power in a few hands.
5. **Maintain proper systems** for record-keeping, surveillance, and compliance monitoring.

Once the government or SEBI is satisfied that these conditions are met, the exchange is granted recognition through an official notification.

Conditions of Recognition

Recognition is not permanent. It is subject to ongoing compliance with the Act's requirements and SEBI's directives. Recognised exchanges must:

- Enforce their own by-laws transparently and consistently.
- Supervise member brokers and take disciplinary action when necessary.
- Maintain accurate records of all trading and settlement activities.
- Submit periodic returns, financial statements, and audit reports.
- Cooperate fully with SEBI during inspections and investigations.

Failure to comply with these conditions can lead to the suspension or withdrawal of recognition — a measure that ensures continued accountability.

Governance Framework of Recognised Exchanges

The SCRA provides for a structured governance model that separates ownership from management to prevent conflicts of interest. The governing board of a recognised stock exchange typically includes:

- **Public representatives**, nominated to ensure impartiality and protect investor interests.
- **Member representatives**, elected from among brokers to contribute operational expertise.
- **Independent directors**, responsible for oversight, risk management, and policy guidance.

This balanced composition ensures that decisions are made with fairness and professionalism. It also prevents dominant groups from influencing market operations for personal gain.

Role of SEBI in Exchange Governance

After SEBI assumed regulatory control, it became the primary authority overseeing exchange governance. SEBI's role includes:

- Approving appointments of key managerial and compliance officers.
- Reviewing and approving amendments to exchange by-laws.

- Monitoring trading systems, surveillance mechanisms, and risk management frameworks.
- Conducting regular inspections to assess governance effectiveness.
- Directing exchanges to take corrective action in case of operational lapses.

Through these powers, SEBI ensures that recognised exchanges remain transparent, technologically competent, and investor-focused.

Derecognition and Disciplinary Action

If an exchange fails to comply with the provisions of the SCRA or SEBI's regulations, its recognition may be suspended or cancelled. Derecognition is a serious step, typically taken when:

- There is persistent non-compliance with legal obligations.
- The exchange fails to maintain fair trading practices.
- It becomes financially unstable or operationally unsound.
- It ignores SEBI's directions or obstructs inspections.

In such cases, SEBI or the Central Government may appoint an administrator, transfer investor accounts to another recognised exchange, and ensure settlement of pending obligations to protect market participants.

Governance in the Era of Demutualisation

One of the most important reforms in exchange governance came with the concept of *demutualisation*. Under this model, ownership, management, and trading rights of exchanges were separated to remove conflicts of interest. The SCRA facilitated this transformation through amendments that required exchanges to operate as corporate entities with independent boards and transparent management systems.

This change marked India's transition from member-controlled exchanges to professionally managed institutions like the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE), both of which operate under the principles laid down by the Act.

SEBI's Oversight and Enforcement Mechanisms under the Securities Contracts (Regulation) Act, 1956 Executive Summary PDF

The introduction of the Securities Contracts (Regulation) Act, 1956 laid the groundwork for a disciplined securities market, but it was the creation of the Securities and Exchange Board of India (SEBI) that gave the Act its enduring strength. SEBI became the operational arm that translated the law's intent into day-to-day supervision, enforcement, and policy. Through amendments to the SCRA, SEBI was empowered to regulate exchanges, brokers, and all market participants — ensuring that the trading ecosystem remained transparent, efficient, and investor-centric.

The oversight framework designed under the Act makes SEBI both a regulator and a watchdog. Its authority extends from the registration of market participants to the investigation of violations. Every trade that occurs within a recognised exchange is subject to SEBI's surveillance, creating a system where accountability is constant and traceable.

Role of SEBI under the SCRA

The SCRA entrusted SEBI with comprehensive powers to oversee and regulate India's securities market. Its functions include:

1. Granting and renewing recognition to stock exchanges and approving amendments to their by-laws.
2. Registering brokers, sub-brokers, and other intermediaries and monitoring their conduct.
3. Supervising clearing corporations and settlement mechanisms.
4. Inspecting records, systems, and trading infrastructure of exchanges and intermediaries.
5. Investigating complaints, frauds, or insider trading activities.
6. Imposing penalties and ordering corrective actions to maintain market integrity.

Through these powers, SEBI ensures that the spirit of the SCRA — fairness, investor protection, and market transparency — remains the guiding principle of India's securities market.

Inspection and Audit Powers

Regular inspection is central to SEBI's oversight mechanism. Under the SCRA, SEBI may conduct both scheduled and surprise inspections to assess compliance by exchanges, brokers, or other registered participants. These inspections examine:

- Trading data and transaction records.
- Risk management and margin collection systems.
- Investor grievance redressal procedures.
- Adherence to listing requirements and disclosure norms.
- Governance and internal control structures.

The findings from these inspections often lead to policy improvements or targeted enforcement actions. SEBI's audits act as a preventive measure, discouraging violations before they occur.

Enforcement Actions and Penalties

The SCRA, 1956 Executive Summary PDF outlines a range of penalties that SEBI can impose for breaches of the law or its regulations. Depending on the gravity of the offence, SEBI may:

- Impose monetary fines on individuals or entities for non-compliance.
- Suspend or cancel the registration of brokers or intermediaries.
- Freeze trading accounts involved in manipulation or insider trading.
- Direct exchanges to nullify illegal transactions.
- Refer serious offences to criminal authorities for prosecution.

This layered approach to enforcement ensures that penalties are proportionate, effective, and immediate — reinforcing the message that compliance is not optional but mandatory.

Surveillance and Preventive Oversight

SEBI uses advanced technology to maintain continuous surveillance over trading activity across recognised exchanges. Its real-time monitoring systems flag abnormal price movements, sudden volume spikes, or coordinated trading patterns that may indicate manipulation.

In cases of suspected misconduct, SEBI can demand information from exchanges, brokers, or even banks involved in the transaction. This capacity for instant intervention allows it to curb irregularities before they escalate into systemic risks.

Coordination with Other Regulators

To strengthen enforcement, SEBI collaborates with other financial authorities, including:

- The Reserve Bank of India (RBI) for oversight of financial stability and monetary links.
- The Ministry of Finance for policy alignment and legislative updates.
- The Enforcement Directorate (ED) in matters involving money laundering or foreign exchange violations.
- International securities regulators through information-sharing agreements.

Such coordination ensures that enforcement is comprehensive and consistent, particularly in an era where securities trading often crosses domestic and global boundaries.

Investor Protection Mechanisms

SEBI's oversight is also designed to protect investors directly. Under the SCRA framework, SEBI mandates:

- Investor Protection Funds at every recognised exchange.
- Grievance redressal and arbitration mechanisms for dispute resolution.
- Disclosure obligations by listed companies and intermediaries.
- Awareness initiatives to educate investors about their rights and risks.

These measures convert the Act's commitment to investor confidence into visible, functioning systems that safeguard participants at every level of the market.

Corrida Legal Insight

Conclusion of the Securities Contracts (Regulation) Act, 1956 Executive Summary PDF

The Securities Contracts (Regulation) Act, 1956 remains one of the cornerstones of India's financial legal framework. At its core, the Act was never just about controlling trading practices — it was about restoring public confidence in a system that once operated on speculation and trust alone. It transformed the securities market from an informal, fragmented network into a structured, transparent, and legally accountable institution.

Over time, the SCRA has evolved alongside India's economic progress. What began as a post-independence measure to prevent unfair trading has today become a dynamic legal foundation that supports one of the world's fastest-growing capital markets. Through continuous amendments and SEBI's active enforcement, the Act has adapted to new realities — from dematerialised securities and electronic trading to derivatives and algorithmic platforms — without losing its original purpose of protecting investors and maintaining market discipline.

The law's long-term success lies in three fundamental contributions:

1. **Creating a regulated environment** – ensuring that every securities transaction occurs through recognised exchanges under legal supervision.
2. **Institutionalising investor protection** – preventing manipulation, ensuring transparency, and establishing grievance mechanisms.
3. **Strengthening regulatory coordination** – empowering SEBI and other authorities to maintain consistent market oversight.

Even today, the SCRA's influence extends beyond the trading floor. It continues to shape corporate governance, compliance frameworks, and investor education — proving that strong regulation is not an obstacle to growth, but its foundation.

Corrida Legal's interpretation of the Securities Contracts (Regulation) Act, 1956 highlights that its real achievement lies in balance. The Act encourages innovation while insisting on integrity; it welcomes market expansion but demands fairness. In doing so, it has made India's securities market both modern and trustworthy.

Nearly seven decades later, the SCRA still defines how confidence, compliance, and commerce coexist in India's financial ecosystem. It remains not only a legal statute but a guiding principle for every participant — from regulators and brokers to investors — who together uphold the values of transparency and accountability in India's capital markets.



C O R R I D A L E G A L
C O R P O R A T E & E M P L O Y M E N T L A W F I R M

GURGAON - MUMBAI - DELHI
CONTACT@CORRIDALEGAL.COM

WWW.CORRIDALEGAL.COM