

RULES

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CHAPTER – I
PRELIMINARY & DEFINITIONS

PRELIMINARY**Short Title**

These Rules shall be called “**Rules**” or “**ARCL Rules**”.

Applicability of the Securities Laws

These Rules shall be subject to the provisions of the Securities Laws.

1. DEFINITIONS

In these Rules, unless the context otherwise requires,

- (a) “**Board of Directors**” or “**Board of ARCL**” means Board of Directors of the AMC Repo Clearing Limited;
- (b) “**Bye-Laws**” means bye-laws of the Clearing Corporation for the time being in force and any amendments made thereto from time to time;
- (c) “**Clearing Bank(s)**” is such bank(s) as the Clearing Corporation may appoint to act as a funds settling agency, for the collection of margin money for all deals cleared through the Clearing Corporation and any other funds movement between Clearing Members and the Clearing Corporation;
- (d) “**Clearing Corporation**” means AMC Repo Clearing Limited;
- (e) “**Clearing Member**” shall mean a member of the Clearing Corporation and includes all categories of Clearing Members as may be admitted as such by the Clearing Corporation but does not denote the shareholder of the Clearing Corporation;
- (f) “**Clearing Segments**” means the different segments or divisions for clearing and settlement of deals as may be classified by the Relevant Authority from time to time;
- (g) “**Committee**” means a committee constituted by the Relevant Authority and/or the Board of Directors, comprising of its own members or otherwise, and includes a committee constituted by the Managing Director or a committee constituted

by the committee of the Board of Directors and a sub-committee of any such committees;

- (h) **"Deals"** means, unless the context indicates otherwise, deals of transactions that are permitted under Bye-Laws and which are admitted to be cleared and settled through the Clearing Corporation;
- (i) **"Exchange"** means any stock exchange recognised under the SCRA as a stock exchange;
- (j) **"Managing Director"** means the Managing Director of the AMC Repo Clearing Limited;
- (k) **"Regulations"** means Regulations of the Clearing Corporation and shall include business rules, code of conduct, circulars, guidelines and directives, as may be issued or specified by Relevant Authority from time to time, inter alia, for the operations of the Clearing Corporation;
- (l) **"Relevant Authority"** shall mean Board of ARCL and includes the Managing Director and, a Committee;
- (m) **"Rules"** means Rules of the Clearing Corporation for the time being in force and includes any amendments made thereto from time to time;
- (n) **"SEBI Act"** means Securities and Exchange Board of India Act, 1992 (Act No.15 of 1992);
- (o) **"SEBI"** means Securities and Exchange Board of India established under Section 3 of Securities and Exchange Board of India Act, 1992;
- (p) **"SCRA"** means Securities Contracts (Regulation) Act, 1956 (Act No.42 of 1956);
- (q) **"SCRR"** means Securities Contracts (Regulation) Rules, 1957;
- (r) **"Securities"** shall have the meaning assigned to it in SCRA;
- (s) **"Securities Laws"** includes the SCRA, SEBI Act, Depositories Act, 1996, the relevant provisions of the Companies Act, 2013 and the Rules and Regulations framed thereunder and any statutory modification or re- enactment thereto, the

circulars, notifications, directives, guidelines made or issued thereunder by Central Government or SEBI or Reserve Bank of India (RBI) from time to time;

- (t) **“Trading Member”** means a Trading Member of any segment of any Exchange;
- (u) All other words and expressions used but not defined in these Rules, but defined in the Regulations and Bye-Laws of the Clearing Corporation, SCRA, SEBI Act, Companies Act, Depositories Act, 1996 or in the Rules and Regulations made thereunder shall have the same meaning respectively assigned to them in such Bye-Laws and Regulations, Acts or the Rules or the Regulations made thereunder or the Scheme or any statutory modification or re- enactment thereto, as the case may be;
- (v) In case a term is defined in more than one of the above, then its meaning as defined in that, which precedes the others mentioned hereinabove, shall prevail, unless necessitated otherwise;
- (w) Headings shall not affect the construction or interpretation of any Rule;
- (x) Words importing masculine gender shall include feminine gender and vice versa and neutral gender in the case of companies, corporations, firms, etc., unless the context otherwise requires.

CHAPTER – II
BOARD OF DIRECTORS

1. The Board of ARCL is empowered to organise, maintain, control, manage, regulate and facilitate the operations of the Clearing Corporation and all activities of the Clearing Members of the Clearing Corporation.
2. The Board of ARCL is empowered to make Rules, Bye-Laws and Regulations from time to time, for all or any matters relating to the conduct of the business of the Clearing Corporation, the business and transactions of Clearing Members, between Clearing Members *inter-se* as well as the business and transactions between Clearing Members and persons who are not Clearing Members, Participants and to control, define and regulate all such transactions and dealings and to do such acts and things which are necessary for the purposes of the Clearing Corporation.
3. Without prejudice to the generality of the foregoing, the Board of ARCL is empowered to make Regulations for all or any of the following matters:
 - (a) conduct of business of the Clearing Corporation;
 - (b) appointment and dissolution of Committee or Committees for any purpose of the Clearing Corporation;
 - (c) manner of operations and interfacing with Exchanges, custodians, depository and Clearing Bank(s);
 - (d) norms, procedures, terms and conditions for admission to membership of the Clearing Corporation;
 - (e) norms, procedures, terms and conditions for registration of Constituents as Participants;
 - (f) conditions, levy for admission or subscription for admission or continuance of Clearing Membership of the Clearing Corporation;
 - (g) conditions, levy for admission or subscription for registration or continuance as Participants;
 - (h) conduct of Clearing Members and Participants with regard to the business of the Clearing Corporation;
 - (i) prescription, from time to time, of capital adequacy and other norms which shall be required to be maintained by different categories of Clearing Members and Participants;
 - (j) charges payable by Clearing Members and Participants for business transacted through the Clearing Corporation as may be laid down from time to time;
 - (k) maintenance of records and books of accounts by Clearing Members and Participants as may be specified from time to time;

- (l) investigation of the financial condition, business conduct and dealings of the Clearing Members and Participants;
 - (m) prescription from time to time, and administration of penalties, fines and other consequences, including suspension/expulsion of Clearing Members from the Clearing Corporation for violation of any requirements of the Rules, Bye Laws and Regulations and the codes of conduct;
 - (n) prescription from time to time, and administration of penalties, fines and other consequences, including suspension of registration/de-registration of Participants for violation of any requirements of the Rules, Bye Laws and Regulations and the codes of conduct;
 - (o) disciplinary action/procedures against any Clearing Member;
 - (p) penalties for non-compliance with or contravention of the Bye Laws, Rules and Regulations of the Clearing Corporation or of general discipline of the Clearing Corporation, including expulsion or suspension of the Clearing Members;
 - (q) declaration of any Clearing Member as a defaulter or suspension or resignation or expulsion from Clearing Membership of the Clearing Corporation and consequences thereof;
 - (r) such other matters in relation to the Clearing Corporation as may be prescribed under the provisions of the Articles of Association, Bye Laws or these Rules or as may be necessary or expedient for the organisation, maintenance, control, management, regulation and facilitation of the operations of the Clearing Corporation.
4. The Board of ARCL is empowered to delegate, from time to time, to any committee(s) or to the Managing Director or to any person, such of the powers vested in them and on such terms as they may think fit, to manage all or any of the affairs of the Clearing Corporation and from time to time, to revoke, withdraw, alter or vary all or any of such powers.
5. The Board of ARCL may, from time to time, constitute one or more committees comprising of members of the Board of ARCL or such others as the Board of ARCL may in its discretion deem fit or necessary and delegate to such committees such powers as the Board of ARCL may deem fit and the Board of ARCL may from time to time revoke such delegation.
6. The Board of ARCL shall have the authority to issue directives from time to time to any Committees or any other person or persons to whom any powers have been delegated by the Board of ARCL. Such directives issued in exercise of this power, which may be

of policy nature or may include directives to dispose-off a particular matter or issue, shall be binding on the concerned Committee(s) or person(s).

7. The Board of ARCL is empowered to vary, amend, repeal or add to Bye Laws and Rules framed by it with prior approval of the Regulator, if any.
8. The Board of ARCL is empowered to vary, amend, repeal or add to Regulations framed by it. Such changes shall be intimated to SEBI within such period as may be prescribed by SEBI.
9. The Members of the Board of ARCL and of such committees as may be identified by the Board of ARCL shall adhere to the Code of Ethics as specified by the Regulator.

CHAPTER - III
COMMITTEES

1. CONSTITUTION

One or more Committee(s) may be appointed by the Board of Directors for the purposes of managing the day-to-day affairs of the different segment(s) of the Clearing Corporation. The Board of Directors may decide on the constitution, duration and powers of the Committee(s), nomination and vacation of the nominees from the Committee(s) and appointment of office bearers and rules and procedures for the functioning of the Committee(s).

2. POWERS OF COMMITTEE(S)

- (a) The Board of Directors may delegate from time to time to the Committee(s) such of the powers vested in them and upon such terms as they may think fit, to manage all or any of the affairs of the Clearing Corporation and from time to time, to revoke, withdraw, alter or vary all or any of such powers.
- (b) The Committee(s) shall be bound and obliged to carry out and implement any directives issued by the Board of Directors from time to time and shall be bound to comply with all conditions of delegation and limitations on the powers of the Committee(s) as may be prescribed.

CHAPTER – IV
CLEARING MEMBERSHIP

1. Multiple Categories

The rights, privileges duties and responsibilities of a Clearing Member shall be subject to and in accordance with the Securities Laws, Rules, Bye-Laws and Regulations of the Clearing Corporation. The Relevant Authority may define and admit more than one category of Clearing Members for the same segment or for different segments and may specify different norms including eligibility, admission and cessation of membership for each type of Clearing Members.

2. Admission and Fees

- (a) The Relevant Authority may specify different requirements regarding qualification, net worth, infrastructure and other relevant norms for different categories of Clearing Members;
- (b) The Relevant Authority may specify pre-requisites, conditions, formats and procedures for application for admission, termination, re-admission, etc. of Clearing Members to all or any of the segments of the Clearing Corporation. The Relevant Authority may, at its absolute discretion, refuse permission to any applicant to be admitted as a Clearing Member to all or any of the segments;
- (c) The Relevant Authority may, from time to time, provide for payment or provision by the Clearing Member at the time of admission and subsequently during the currency of its membership, such fees, charges, security deposits, margin money, contribution, collateral security, sureties, and other amounts as may be specified by it.

3. Eligibility

The following persons shall be eligible to become Clearing Members of the Clearing Corporation:

- (a) A public financial institution as defined in section 2(72) of the Companies Act, 2013 (18 of 2013);
- (b) A bank included for the time being in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934);

- (c) A foreign bank operating in India with the approval of the Reserve Bank of India;
- (d) A state financial corporation established under the provisions of section 3 of the State Financial Corporations Act, 1951 (63 of 1951);
- (e) An institution engaged in providing financial services, promoted by any of the institutions mentioned in sub clause (a) to (d) jointly or severally;
- (f) A custodian of securities who has been granted a certificate of registration by the Board under sub- section (1A) of section 12 of the SEBI Act;
- (g) Trading Member of an Exchange;
- (h) A company or a body corporate as defined under the Companies Act, 2013 or in any statutory modification or re-enactment thereof;
- (i) A limited liability partnership formed and registered under the Limited Liability Partnership Act, 2008, or any statutory modification or re- enactment thereof;
- (j) Asset Management Company of a Mutual Fund; and
- (k) Any other entity permitted by the Clearing Corporation and/or SEBI.

Provided however any entity to be eligible to become a Clearing Member of the Clearing Corporation shall be eligible to participate in Repo Transactions under the applicable Reserve Bank of India directions.

4. **Conditions Precedent for Admission**

- (a) The Clearing Corporation may admit a person as a Clearing Member of the Clearing Corporation, if such person:
 - (i) is not disqualified under the Securities Laws from becoming a clearing member of a Clearing Corporation;
 - (ii) fulfills the requirements prescribed under the Securities Laws; Provided however, the following persons shall not be entitled to become Clearing Member of the Clearing Corporations; if it:
 - (a) Has compounded with its creditors for less than full discharge of debts;
 - (b) Has been convicted of an offence involving a fraud or dishonesty;

- (c) Is a body corporate which has committed any act which renders it liable to insolvency or liquidation or winding up under the provisions of the law;
- (d) Is a body corporate in respect of which a provisional liquidator or receiver or official liquidator or interim resolution professional or resolution professional has been appointed;
- (e) Has been at any time expelled or declared a defaulter by any Exchange, depository or other clearing corporation, or;
- (f) Has been previously refused admission to Clearing Membership of the Clearing Corporation unless the period of one year has elapsed since the date of rejection;
- (g) Is not a fit and proper person as prescribed by the Regulator from time to time;

Provided however such entity is permitted to transact in Repo Transactions under applicable law.

5. **Additional Eligibility Criteria**

The Relevant Authority may, in addition to the above, prescribe from time to time, for different classes of Clearing Members and clearing segments, further and other criteria for eligibility for admission to, or retention of Clearing Membership. No person shall be eligible to be admitted to the Clearing Membership of the Clearing Corporation unless the person also satisfies such additional eligibility criteria.

Provided however that the Relevant Authority may waive compliance with any or all of the admission conditions and at its discretion waive the requirements set out as above, if it is of the opinion that the person seeking admission is considered by the Relevant Authority to be otherwise qualified to be admitted as a Clearing Member by reason of its means, position, integrity, knowledge and experience of business in securities.

6. **Admission**

- (a) Any person desirous of becoming a Clearing Member shall apply to the Clearing Corporation for admission to the Clearing Membership of the relevant segment of the Clearing Corporation. Every application shall be dealt with by the Relevant Authority, which shall be entitled to admit or reject such applications at its discretion.

- (b) The application for admission of Clearing Members to each segment shall be made in such formats as may be specified by the Relevant Authority from time to time.
- (c) The application shall have to be submitted along with such fees, security deposit and other monies in such form and in such manner as may be specified by the Relevant Authority from time to time.
- (d) The applicant shall furnish such declarations, undertakings, certificates, confirmations and such other documents or papers as the Relevant Authority may specify from time to time.
- (e) The Relevant Authority shall have the right to call upon the applicant to pay such fees or deposit such additional security in cash or kind, deposit or contribution to Settlement Guarantee Fund and any other fund that may be maintained by the Clearing Corporation from time to time, to furnish any additional guarantee or to require contribution to fund established for training or fee as the Relevant Authority may prescribe from time to time.
- (f) The Relevant Authority may provisionally admit the applicant to Clearing Membership provided that the applicant satisfies the eligibility conditions and other procedures and requirements of application subject to such terms and conditions as may be specified by the Relevant Authority. Upon the Relevant Authority being satisfied that all other terms and conditions and other requirements for the Clearing Membership have been complied with, the applicant may be admitted as a Clearing Member. The grant of provisional membership shall not entitle the applicant to any privileges and rights of Clearing Membership.
- (g) The Relevant Authority may at its absolute discretion reject any application for admission by giving reasons therefor.
- (h) If for any reason the application is rejected, the application fee or admission fee if any as the case may be or part thereof as may be decided by the Relevant Authority in its discretion, may be dealt with in such manner as the Relevant Authority deems fit.

- (i) The applicant may prefer an appeal to the Board of ARCL against the rejection of the application. The Board of ARCL may either allow or reject the appeal after giving an opportunity of hearing to the applicant.
- (j) The Relevant Authority may at any time from the date of admission to the Clearing Membership of the Clearing Corporation revoke the admission and expel a Clearing Member if it has in, or at the time of its application for admission to membership or during the course of the inquiry made by the Relevant Authority preceding its admission:-
 - (i) Made any willful misrepresentation; or
 - (ii) Suppressed any material information required of him as to its character and antecedents; or
 - (iii) Has directly or indirectly given false particulars or information or made a false declaration.

7. Transfer of Clearing Membership

- (a) The Clearing Membership shall not be transferable or transmittable except as mentioned herein. Without prejudice to the generality of the foregoing, a Clearing Member shall not assign, mortgage, pledge, hypothecate or charge its right of membership or any rights or privileges attached thereto nor shall it have the right to give license or grant power of attorney in respect of such rights and privileges and no such attempted assignment, mortgage, pledge, hypothecation or charge or license or power of attorney shall be effective as against the Clearing Corporation for any purpose, nor shall any right or interest in any Clearing Membership other than the personal right or interest of the Clearing Member therein be recognised by the Clearing Corporation. The Relevant Authority may suspend any Clearing Member of the Clearing Corporation who acts or attempts to act in violation of the provisions of this rule or take any other disciplinary action as it may deem fit.
- (b) Subject to the provisions of the Securities Laws and other terms and conditions as the Clearing corporation may specify in this regard, Clearing Membership may be transferred with prior written approval of the Clearing Corporation in the following circumstances:
 - (i) Merger or amalgamation of the Clearing Member with another company or body corporate;
 - (ii) In the event of loss of majority holding in or control of management of a Clearing Member, directly or indirectly, in such manner and to such extent as may be specified by the Clearing Corporation;

- (iii) Induction of a new partner or partners in the Clearing Member, whether on death or retirement of any partner or reconstitution of the firm, whereby the new partner (not being heir or legatee of the deceased partner) together with any of the other partners (not being heirs or legatees of any deceased partner) introduced to the partnership, simultaneously or at any time during the previous five years, holds more than 25% of the share in the profits of the firm;
- (iv) Demerger of Clearing membership from the Clearing Member company;
- (v) By takeover of a Clearing Member company by any person which may or may not be a Clearing Member;
- (vi) By dilution of existing holding in or control of management of a Clearing Member;
- (vii) By two or more Clearing Members coming together to form a new Clearing Member entity;
- (viii) By transfer of the clearing membership of a Clearing Member to another person.

Explanation:

For the purpose of Clause 7(b) above, "Transfer of Clearing Membership" means transfer of clearing membership from a Clearing Member to any person eligible to become a Clearing Member and also includes, unless otherwise provided for, change in status or constitution arising out of amalgamation, merger, de-merger, takeover or loss of holding or control in management of the Clearing member or dilution of holding or control in the management of the Clearing Member in such manner and to such extent as specified by the Relevant Authority.

- (c) Notwithstanding anything contained in these Rules but subject to (b) (ii) above, change in status or constitution arising out of amalgamation, merger, de-merger or takeover or loss of holding or control in management of the Clearing member or dilution of existing holding in or control in management or transfer of clearing membership to another person shall not be deemed to be a transfer for the purpose of these Rules, unless it results in the loss of majority in, and / or control of management of, directly or indirectly, the Clearing Member in such manner and to such extent as specified by the Relevant Authority.
- (d) The Clearing Corporation may, while permitting a transfer, specify such conditions as it may deem fit, including payment of transfer fee, deposits, past dues or other funds, settlement of investor grievances and implementation of

arbitration awards, constitution and structure for the person taking up the clearing membership.

- (e) Without prejudice to any other provision of these Rules, the clearing membership may be suspended or the clearing facility may be withdrawn or restricted, for such period as the Relevant Authority may deem fit, upon a Clearing Member or a partner of the Clearing Member, having such interest in the firm as may be specified by the Relevant Authority, or a shareholder of a Clearing Member company, having such holding in the company as may be specified by the Relevant Authority, in the opinion of the Relevant Authority, being unable to carry on its business on account of physical or mental disability or infirmity or continued non-availability or dissolution or deadlock in the management.

Explanation:

For the purposes of Clause (e) above, the term “**Deadlock in the Management**” means a situation wherein there is a loss of confidence or disagreement among the partners of a Clearing Member firm or among the directors or shareholders of a Clearing Member company, which in the opinion of the Relevant Authority, will affect or is likely to affect the conduct of business by the Clearing Member firm or the Clearing Member company, as the case may be, or an equality of vote at a meeting of the directors or shareholders of a Clearing Member company.

8. Suspension of Clearing Membership rights.

Without prejudice to any other provision of the Rules, the operation of the Clearing Member may be suspended, for such period as the Relevant Authority may deem fit, in the following circumstances:

- (a) In the event of the Clearing Member not paying the fees, margins, deposits required to be paid by the Clearing Member to the Clearing Corporation;
- (b) In the event of the Clearing Member being in any breach or default of these Rules, Bye-Laws or Regulations;
- (c) In the event of any court, tribunal, forum or any other authority, duly authorized in that behalf ordering and directing the Clearing Corporation to do so;

- (d) In the event of any provisional liquidator or administrator or resolution professional being appointed or winding up petition being admitted against the Clearing Member;
- (e) In any circumstances in which the Relevant Authority may consider it necessary to suspend the operations of the Clearing Member in the interest of the securities market or in the interest of investors;

The Clearing Member shall be entitled to an opportunity to make a representation before the Relevant Authority, before a final decision on suspension of the Clearing Member is taken by the Relevant Authority.

9. **Conditions**

- (a) Clearing Members shall adhere to the Rules, Bye-Laws and Regulations of the Clearing Corporation and shall comply with such operational parameters, rulings, notices, guidelines, circulars and instructions of the Relevant Authority as may be issued by the Relevant Authority from time to time.
- (b) All contracts issued for admitted deals shall be in accordance with and subject to Rules, Bye-Laws and Regulations of the Clearing Corporation.
- (c) Clearing Members shall furnish declarations, undertakings, confirmation and such other documents and papers relating to such matters and in such forms as may be prescribed by the Relevant Authority from time to time.
- (d) Clearing Members shall furnish to the Clearing Corporation such audited and/or unaudited financial or qualitative information and statements and in such manner as may be required by the Relevant Authority from time to time.
- (e) Clearing Members shall comply with such requirements as may be prescribed by the Relevant Authority from time to time with regard to advertisements, booklets and issue of circulars in connection with their activities as Clearing Members.
- (f) Clearing Members shall extend full cooperation and furnish such information and explanation and in such manner as may be required by the Relevant Authority or authorised person of the Clearing Corporation for inspection or audit or in regard to any dealings, settlement, accounting and/or other related matters.

10. **Compulsory Termination of Clearing Membership**

Without prejudice to any other provision of these Rules, the clearing membership may be compulsorily terminated by the Clearing Corporation if restructuring of the entity does not take place to the satisfaction of the Clearing Corporation within such period as may be permitted by the Clearing Corporation.

11. Cessation of Clearing Membership

- (a) A clearing membership of a Clearing Member may cease, if any of the following apply:
- (i) by surrender of clearing membership in accordance with such procedure and subject to such terms and conditions as may be specified by the Clearing Corporation;
 - (ii) by insolvency;
 - (iii) by dissolution;
 - (iv) by winding up;
 - (v) by expulsion;
 - (vi) by being declared a defaulter;
 - (vii) by compulsory termination of clearing membership in case of inability or failure of the Clearing Member to meet the continued admission norms or restructuring of the entity as mentioned in Rule 11 does not take place;
 - (viii) by cancellation of Certificate of Registration by SEBI as a stock broker or Clearing Member.
 - (ix) by the violation of any Securities Law which warrants the cessation of membership right.
- (b) On cessation of clearing membership of a Clearing Member, the clearing membership extinguishes, provided however, all the obligations and liabilities incurred, while the person was a Clearing Member shall continue.
- (c) Without prejudice to the right of the Clearing Corporation to take any other action under these Rules including suspension, withdrawal or restriction on clearing rights or other facilities of the Clearing Member, the Clearing Corporation may compulsorily terminate the clearing membership of a Clearing Member, if such Clearing Member fails to meet the conditions of continued admission specified by the Relevant Authority from time to time.

12. Re-Admission

- (a) The Clearing Corporation may at its discretion re-admit, a Clearing Member declared as a defaulter or a person whose clearing membership has been compulsorily terminated, as a Clearing Member subject to such terms and conditions as may be specified by the Clearing Corporation. However, the Clearing Corporation shall not re-admit a Clearing Member expelled due to disciplinary action taken against him for other than financial inability to meet any obligations or continuance admission norms prescribed under the Bye-Laws, Rules and Regulations.
- (b) The Clearing Corporation may, at its discretion, re-admit only such defaulter or such person, whose clearing membership has been compulsorily terminated and who, in the opinion of the Clearing Corporation:
- (i) has paid up all the dues, crystallized or admitted, to SEBI and Clearing Corporation;
 - (ii) has paid up all the dues, crystallized or admitted, to other Clearing Members, clients and such other persons as may be specified by the Clearing Corporation;
 - (iii) has no insolvency or dissolution, insolvency or winding up proceedings pending against him or it;
 - (iv) has defaulted owing to the default of clients whom it might have reasonably expected to be good for their commitments;
 - (v) has not been guilty of material breach of the Rules, Bye-Laws and Regulations of the Clearing Corporation;
 - (vi) has been irreproachable in its general conduct;
 - (vii) meets all the eligibility criteria for admission as a Clearing Member.

CHAPTER – V

DISCIPLINARY PROCEEDINGS, PENALTIES, SUSPENSION AND EXPULSION**1. Disciplinary Jurisdiction**

- (a) The Clearing Corporation may expel or suspend or censure or warn or reprimand any Clearing Member or impose fine or penalty on any Clearing Member, or withdraw or restrict all or any of its clearing membership rights or facilities, if it is found guilty of contravention, non-compliance, disobedience, disregard or evasion of any of the Rules, Bye-Laws and Regulations of the Clearing Corporation or circulars, orders, notices, directions, decisions or rulings of the Relevant Authority or the Clearing Corporation or of any conduct, proceeding or method of business which the Clearing Corporation in its absolute discretion deems dishonourable, disgraceful or unbecoming of a Clearing Member of the Clearing Corporation or inconsistent with just and equitable principles of trade or detrimental to the interests, good name or welfare of the Clearing Corporation or prejudicial or subversive to its objects and purposes.
- (b) Penalty for Misconduct, Un-business-like conduct and Unprofessional Conduct. In particular and without in any way limiting or prejudicing the generality of the provisions in Clause (a) above, the Clearing Corporation may expel or suspend, censure, warn, reprimand any Clearing Member or impose fine or penalty on any Clearing Member or withdraw or restrict all or any of the clearing membership rights or facilities for any misconduct, un-business-like conduct or unprofessional conduct in the sense of the provisions contained herein and in the Securities Laws.
- (c) **Misconduct**: A Clearing Member shall be deemed to be guilty of misconduct for any of the following or similar acts or omissions namely:
- (i) **Fraud**: If it is convicted of a criminal offence or if it has committed fraud or a fraudulent act which in the opinion of the Clearing Corporation renders it unfit to be a Clearing Member;
 - (ii) **Violation of Securities Laws**: If it has violated or contravened provisions of the Securities Laws, code of conduct for Clearing Members, directions, orders, guidelines, notices or circulars issued by the Clearing Corporation governing the activities, business and operations of the Clearing Corporation in particular, and of the securities business in general;
 - (iii) **Abetment of the Breach of Rules, Bye-Laws and Regulations**: If it abets or shields or assists or omits to report any Clearing Member whom it has known to have committed a breach or evasion of any Rule, Bye-Law and

- Regulation of the Clearing Corporation or circular, order, notice, direction, decision or ruling of the Clearing Corporation;
- (iv) Failure to comply: If it contravenes or refuses or fails to comply with or abide by any circular, order, notice, direction, decision or ruling of the Clearing Corporation and Relevant Authority including non-submission of information or providing wrong information or non-submission of information in proper format;
- (d) Improper conduct: If in the opinion of the Relevant Authority, it is guilty of dishonourable or disgraceful or disorderly or improper conduct on the Clearing Corporation or of willfully obstructing the business of the Clearing Corporation including the below:
- (i) Failure to submit to or abide by arbitration: If it neglects or fails or refuses to submit to arbitration or to abide by or carry out any award of Arbitrators, decision or order of the Clearing Corporation made in connection with a reference under the Rules, Bye-Laws and Regulations of the Clearing Corporation;
- (ii) Failure to testify or produce document: If it neglects or fails or refuses to submit to the Relevant Authority within the time specified by it, such books, correspondence, documents, data and papers or any part thereof as may be required to be produced or to appear and testify before or cause any of its partners, attorneys, representatives or employees to appear and testify before the Relevant Authority or such Committee or employee of the Clearing Corporation or other person authorised in that behalf;
- (iii) Failure to submit information: If it neglects or fails or refuses to submit to the Relevant Authority within the time specified in that behalf returns, information, documents, certificates, declarations, audited or un-audited accounts in such form as the Relevant Authority may specify together with such other information as the Relevant Authority may require whenever circumstances arise which in the opinion of the Relevant Authority make it desirable that such special returns or information should be furnished by any or all the Clearing Members;
- (iv) False or misleading submissions: If it submits any false or misleading or incomplete returns, documents, certificates, declaration, audited or un-audited accounts required to be submitted to the Relevant Authority or makes any false or misleading statement therein;
- (v) Vexatious complaints: If it brings before the Relevant Authority, a complaint, which in the opinion of the Relevant Authority is frivolous, vexatious or malicious;

- (vi) Failure to pay dues and fees: If it fails to pay subscription fees, charges, levies, recoveries, deposits, arbitration charges or any other money which may be due from it or any fine or penalty imposed on it within the time specified by the Relevant Authority;
 - (vii) Non-co-operation and threat: If it neglects or fails or refuses to co-operate with the Relevant Authority or threatens or causes any harm to the Clearing Corporation or to the employees or representatives of the Clearing Corporation or obstructs the Clearing Corporation or its employees or representatives in the performance of duties or fails or neglects or refuses to allow access to its premises, records, the computer and other information systems and telecommunication systems.
 - (viii) False or misleading returns: If it neglects or fails or refuses to submit or makes any false or misleading statement in its clearing forms or returns required to be submitted to the Clearing Corporation under the Bye-Laws, Rules and Regulations;
- (e) Un-businesslike Conduct: A Clearing Member shall be deemed guilty of un-businesslike conduct if it acts or omits to act in un-businesslike manner, inter alia, in the following eventualities:
- (i) Fictitious Names: If it transacts its own business or the business of its clients in fictitious names or if it carries on business on the Clearing Corporation under fictitious names;
 - (ii) Fictitious dealings: If it makes a fictitious transaction of dealing in securities;
 - (iii) Circulation of rumors: If it directly or indirectly, in any manner, circulates or causes to be circulated, any rumors;
 - (iv) Prejudicial business: If it makes or assists in making or with such knowledge is a party to or assists in carrying out any plan or scheme for the making of any purchases or sales or offers of purchase or sale of securities for the purpose of upsetting the equilibrium of the market or bringing about a condition in which prices will not fairly reflect market values;
 - (v) Market manipulation and price rigging: If it, directly or indirectly, alone or with other persons, effects series of transactions in any security to create actual or apparent active clearing in such security or raising or depressing the prices of such security for the purpose of inducing purchase or sale of such security by others or for its benefit or for the benefit of any other person in any manner;
 - (vi) Misleading transactions: If it, with an intention of creating false or misleading appearance with respect to the market or the price of any security, places orders for purchase or sale of securities or enters any order

- for the purchase or sale of any security with knowledge that an order at substantially the same size, price and time for sale or purchase of such security has been or will be entered by or for the same or different parties or places orders for purchase and sale of securities at substantially the same size, price and time for sale and purchase of such security;
- (vii) Unwarranted business: If it engages in reckless or unwarranted or un-business-like dealings in the market or effects purchases or sales for its client's account or for any account, in which it is directly or indirectly interested, and if such purchases or sales are excessive in view of its client's or its own means and financial resources or in view of the market for such security;
 - (viii) Failure to carry out transactions for clients: If it fails to carry out transactions for its clients without sufficient cause;
 - (ix) Parting with rights and privileges: If it assigns pledges, hypothecates or charges its right of clearing membership or any other rights or privileges attached thereto or it attempts to assign, pledge, hypothecate or charge its right of clearing membership or any other rights or privileges attached thereto.
- (f) Unprofessional Conduct: A Clearing Member shall be deemed to be guilty of unprofessional conduct for any of the following or similar acts or omissions namely:
- (i) Business in securities in which dealings not permitted: If it is settling deals and securities which dealings are not permitted;
 - (ii) Business for defaulting client: If it transacts business directly or indirectly or executes an order for a client who has within its knowledge failed to carry out obligations relating to securities transactions and is in default to another Clearing Member, unless such client has made a satisfactory arrangement with the Clearing Member who is its creditor;
 - (iii) Business for insolvent: If, without first obtaining the consent of the Clearing Corporation, associates itself in business or transacts any business with or for any individual who has been bankrupt or insolvent even though such individual may have obtained its final discharge from a competent court;
 - (iv) Business without permission when under suspension: If without the permission of the Clearing Corporation, it does business on its own account or on account of a principal with or through a Clearing Member during the period it is suspended by the Clearing Corporation;
 - (v) Business for or with suspended, expelled and defaulter Clearing Members/trading member: If without the permission of the Clearing Corporation, it

deals with any Clearing Member/trading member who has been suspended, expelled or declared a defaulter;

- (vi) Business for employees of other Clearing Members: If it transacts business directly, or indirectly, for or with employee of another Clearing Member without the written consent of such employing Clearing Member;
- (vii) Advertisement: If it advertises for business purposes or issues regularly circular or other business communications to persons other than its own clients, or publishes pamphlets, circular or any other literature or report or information relating to the stock markets in contravention of the advertisement code as may be specified by the Clearing Corporation;
- (viii) Evasion of margin requirements: If it evades or attempts to evade or assists in evading the margin requirements specified by the Clearing Corporation;
- (ix) Dealings with persons prohibited to buy or sell or deal in securities market: If it deals, directly or indirectly, in the course of its business with or transacts any business with or for any person, which has been prohibited by SEBI to buy or sell or deal in the securities market;
- (x) Clearing outside the Clearing Corporation: If it transacts outside the clearing system of the Corporation, unless otherwise permitted.

2. **Clearing Member's Responsibility for The Acts of It/Its Partners and Employees**
A Clearing Member shall be responsible for the acts or omissions of its attorneys, representatives, employees and any other person authorised directly or indirectly by the Clearing Member and shall be liable therefor to the same penalty to the same extent as if such act or omission had been done or omitted by itself.
3. **Clearing Members and Others to Testify and Give Information**
A Clearing member shall appear and testify before and cause its partners, attorneys, representatives and employees to appear and testify before the Clearing Corporation and shall produce or cause to be produced before it, such books, correspondence, documents, papers and records or any part thereof which may be in its possession and which may be deemed relevant or material to any matter under inquiry or investigation or proceeding.
4. **Permission Necessary for Legal Representation**
No person shall have the right to be represented by counsel, attorney, advocate or other representative in any investigation or inquiry or proceeding or hearing before the Clearing Corporation, unless the Clearing Corporation permits.

5. Temporary Suspension

- (a) If in the opinion of the Relevant Authority it is necessary to do so, it may, for reasons to be recorded in writing, temporarily suspend a Clearing Member, pending completion of the disciplinary proceedings under this Chapter by the Clearing Corporation, and no hearing shall be required for such temporary suspension and such temporary suspension shall have the same consequences of suspension under this Chapter.
- (b) A notice to show cause shall be issued to the Clearing Member within a reasonable period of such temporary suspension.
- (c) Any such temporary suspension may be revoked at the discretion of the Relevant Authority, for reasons to be recorded in writing, if the Relevant Authority is satisfied that the circumstances leading to the formation of opinion of the Relevant Authority to effect temporary suspension, have ceased to exist or are satisfactorily resolved.
- (d) A Clearing Member aggrieved by the temporary suspension may appeal to the Board of Directors within 30 (thirty) days from the date of such temporary suspension, provided that such appeal shall not automatically suspend the temporary suspension unless otherwise directed by the Relevant Authority.

6. Withdrawal or Restriction of Facilities Extended to The Clearing Member

Notwithstanding anything contained in these Rules, the Clearing Corporation, may withdraw or restrict any facilities including Clearing facility of a Clearing Member, or direct such Clearing Member to withdraw or restrict such facility, if the situation so warrants, for the reasons to be recorded in writing. No hearing shall be required for such withdrawal or restriction of facilities of Clearing Member.

7. Effect of Suspension of Registration By SEBI

Notwithstanding anything contained in any of the Rules, Regulations and Bye- Laws of the Clearing Corporation, if the registration of a Clearing Member is suspended by SEBI, such Clearing Member shall ipso facto stand suspended from the clearing membership of the Clearing Corporation for the period during which such suspension is in force.

8. Disciplinary Action(s) May Be Single or Co-Joint

The disciplinary action of expulsion or suspension, fine or penalty, censure, warning, reprimand or withdrawal of all or any of the clearing membership rights of a Clearing Member may be imposed singly or co-jointly by the Clearing Corporation.

9. Specification of Penalty Structure

The Clearing Corporation may specify the penalty structure for imposing of fines, the period of any suspension, the withdrawal of particular clearing membership rights and the amount of any fine or penalty, censure, warning, reprimand that would be imposed on contravention, non-compliance, disobedience, disregard or evasion of any Rules, Bye-Laws or Regulation of the Clearing Corporation or circular, order, notice, direction, decision or ruling thereunder and may authorise any employee of the Clearing Corporation to impose penalties in accordance with the penalty structure specified as above. However, such pre-specification will not restrict the powers of the Clearing Corporation to impose additional or higher penalties, if the circumstances so warrant.

10. Commutation

- (a) The Clearing Corporation in its discretion may reduce or remit any disciplinary action taken against a Clearing Member, on such terms and conditions as it deems fit.
- (b) The Clearing Corporation may of its own motion or on an application by the Clearing Member concerned, review its decision and may rescind, revoke or modify any disciplinary action taken against that Clearing Member, provided however, that an application for review by a Clearing Member shall be filed within a period of one month of the date of receipt of the decision. The Clearing Corporation may, at its discretion, consider the application for review on such terms as it may deem fit, provided fine or penalty amount has already been paid or recovered or reject the same.

11. Failure to Pay Fines and Penalties

If a Clearing Member fails to pay any fine or penalty imposed on it within such period as specified by the Clearing Corporation after notice in writing has been served on it, it may be suspended by the Clearing Corporation or its facilities including the clearing facility may be withdrawn or restricted, until it makes payment and if within a further period as specified, it fails to make such payment, it may be expelled by the Clearing Corporation. Without prejudice to the power of the Clearing Corporation to take any of the above action, the Clearing Corporation may recover such fine or penalty amount from the other funds due to the Clearing Member.

12. Consequences of Suspension

The suspension of a Clearing Member shall have the following consequences namely:

- (a) Suspension of Clearing membership rights: The suspended Clearing Member shall during the terms of its suspension be deprived of and excluded from all the rights and privileges of Clearing membership, but it may be proceeded against by the Clearing Corporation for any offence committed by it either before or after its suspension and the Clearing Corporation shall not be debarred from taking cognizance of and adjudicating on or dealing with any claim made against it by any of its clients or creditors.
- (b) Fulfillment of contracts: The suspended Clearing Member shall be bound to fulfill contracts outstanding at the time of its suspension;
- (c) Further business prohibited: The suspended Clearing Member shall not during the term of its suspension make any trade or transact any business with or through a Clearing Member provided that it may with the permission of the Clearing Corporation close with or through a Clearing Member the transactions outstanding at the time of its suspension.
- (d) Rights of Creditors Unimpaired: The suspension shall not affect the rights of the members who are creditors of the suspended Clearing Member.
- (e) Collateral Suspension of all Segments: The membership right of all segments of the Clearing Corporation shall be suspended during the period of suspension of his/its membership right as a Clearing Member.
- (f) Collateral Suspension of Clearing Rights: If the membership right of an Exchange in favour of a Clearing Member is suspended, then the Relevant Authority may, as it deems fit and as may be determined by it on a case-to-case basis, call for suspension of his/its Clearing Membership during the period of such suspension.

13. Consequences of Expulsion

The expulsion of a Clearing Member shall have the following consequences namely:

- (a) Extinguishments of Clearing membership rights: The clearing membership of the expelled Clearing Member shall extinguish and such member shall cease to be a member of the Clearing Corporation but any liability of any such Clearing Member to the Clearing Corporation, SEBI or to any client or creditor of such Clearing Member shall continue and remain unaffected by its expulsion;
- (b) Fulfillment of contracts: The expelled Clearing Member shall be bound to fulfill transactions outstanding at the time of its expulsion and it may with the permission of the Clearing Corporation close such outstanding transactions with or through a Clearing Member;

- (c) Consequences of declaration of defaulter to follow: In the case of expulsion or compulsory termination of a Clearing Member, the provisions of the Bye-laws pertaining to default and Settlement Guarantee Fund respectively shall become applicable as if such Clearing Member has been declared a defaulter.
- (d) Expulsion from All Memberships: The expelled Clearing Member shall cease to be a member of the Clearing Corporation and shall stand expelled from the membership of the Clearing Corporation and all segments of the Clearing Corporation and all his/its membership right/s with the Clearing Corporation shall stand cancelled.

14. **Expulsion Rules to Apply**

When a Clearing Member ceases to be a Clearing Member by reason of being expelled or pursuant to Chapter IV Rule 11(a) (ii), (iii), (iv), (v), (vii) or (viii) hereinabove, the provisions contained in Rule 11 shall apply, unless specified otherwise.

15. **Notification of Penalty Imposed**

The Clearing Corporation may, in its absolute discretion and in such manner as it thinks fit, notify or cause to be notified to the Clearing Members of the Clearing Corporation or to the public that any person who is named in such notification has been expelled, suspended, penalised or declared a defaulter or ceased to be a Clearing Member. No action or other proceedings shall in any circumstances be maintainable by such person against the Clearing Corporation or any employee, officer, representatives of the Clearing Corporation for the publication or circulation of such notification.-----