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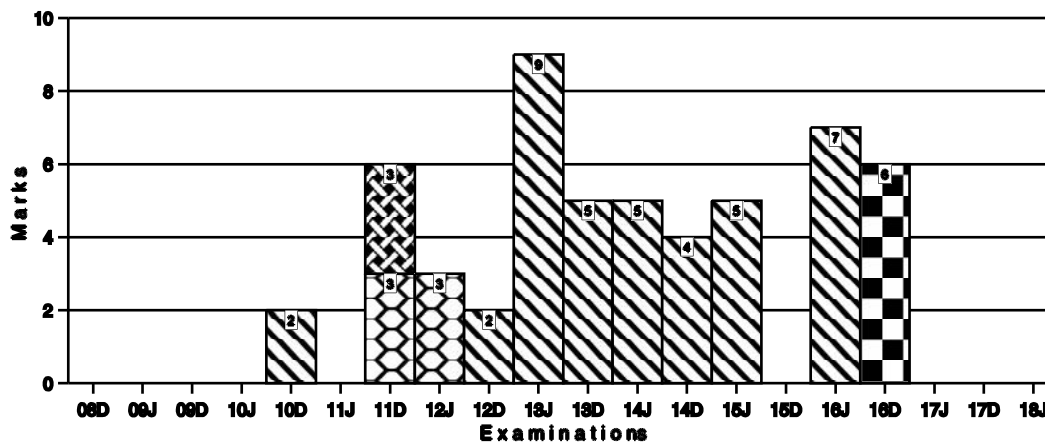
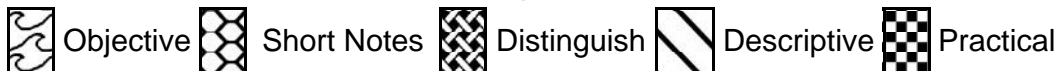
SECURITIES CONTRACTS (REGULATION) ACT, 1956

THIS CHAPTER INCLUDES

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| <ul style="list-style-type: none"> • Securities Contracts (Regulation) Act, 1956 • Punishment for contraventions • Recognized Stock Exchange • Clearing Corporation • Penalties • Certain offences to be cognizable | <ul style="list-style-type: none"> • Public issue and listing of securities • Crediting sum realised by way of penalties to consolidated fund of India • Securities Contracts (Regulation) Rules, 1957 |
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Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



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CHAPTER AT A GLANCE

Topic	Important Highlight
1. Objects of the Act	<p>The Securities Contracts (Regulation) Act, 1956 was enacted by Parliament to prevent undesirable transactions in securities by regulating the business of dealing therein, and by providing for certain other matters connected therewith.</p> <p>This Act gives power to CG for regulating:</p> <ul style="list-style-type: none"> (a) Stock exchanges through a process of recognition and continued supervision, (b) contracts in securities, and (c) listing of securities on stock exchanges.
2. Stock Exchange	<p>Stock Exchange means:</p> <ul style="list-style-type: none"> (a) any body of individuals, whether incorporated or not, constituted before corporatisation and demutualisation under Sections 4A and 4B, <li style="text-align: center;">or (b) a body corporate incorporated under the Companies Act, 2013 whether under a scheme of corporatization or otherwise, for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.

3. Spot delivery contract [Sec. 2]	Spot delivery contract means a contract which provides for: <ol style="list-style-type: none"> (a) actual delivery of securities and the payment of a price therefore either on the same day as the date of the contract or on the next day, (b) transfer of the securities by the depository from the account of a beneficial owner to the account of another beneficial owner when such securities are dealt with by a depository.
4. Derivative	A derivative includes – <ol style="list-style-type: none"> (a) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security and; (b) a contract which derives its value from the prices or index of prices, of underlying securities; (c) commodity derivatives; and (d) such other instruments as may be declared by the Central Government to be derivatives.
5. Corporatisation and Demutualisation	<p>(I) Corporatization:</p> <ul style="list-style-type: none"> • It means the succession of a recognised stock exchange, being a body of individuals or a society registered under the Societies Registration Act, 1860 • by • another stock exchange , being a company incorporated for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities carried on by such individuals or society. <p>(II) Demutualisation:</p> <p>It means the segregation of ownership and management from the trading rights of the members of a RSE in accordance with a scheme approved by the SEBI.</p>

<p>6. Recognition of Stock Exchange [Sec.3]</p>	<p>Section 3 lays down that any stock exchange, desirous of being recognized for the purposes of this Act may make an application in the prescribed manner to the Central Government. Every application shall contain such particulars as may be prescribed, and shall be accompanied by a copy of the bye-laws of the stock exchange for the regulation and control of contracts and also a copy of the rules relating in general to the constitution of the stock exchange and in particular to—</p> <ol style="list-style-type: none"> (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 authorized representatives and clerks
<p>7. withdrawal of Recognition of stock exchange [sec.5]</p>	<p>In the public /Trade interest recognition to be withdrawn</p> <ul style="list-style-type: none"> • Shall serve a notice on the Governing body • State the reasons for withdrawal • Give an opportunity of being heard • Upon withdrawal Notify in the Official Gazette.

<p>8. Various powers of CG:</p>	<p>To call for periodical returns and make direct enquiries [Section 6] To direct rules or make rules [Section 8] To Supersede Companies of Stock Exchanges [Section 11] To Suspend Business of Recognised Stock Exchange [Section 12] To Issue Directions [Section 12A] To prohibit contracts in certain cases [Section 16] To grant Immunity [Section 23-O] To delegate or to make rules [Section 29A]</p>
<p>9. Power of RSE make Rules restricting Voting Rights etc.[Sec. 7A]</p>	<p>Section 7A of the Act stipulates that a recognised stock exchange may make rules or amend any rules made by it to provide for all or any of the following matters, namely –</p> <ul style="list-style-type: none"> (a) the restriction of voting rights to members only in respect of any matter placed before the stock exchange at any meeting; (b) the regulation of voting rights in respect of any matter placed before the stock exchange at any meeting so that each member may be entitled to have one vote only, irrespective of his share of the paid-up equity capital of the stock exchange; (c) the restriction on the right of a member to appoint another person as his proxy to attend and vote at a meeting of the stock exchange; and (d) such incidental, consequential and supplementary matters as may be necessary to give effect to any of the matters specified in clauses (a) (b) and (c). <p>Powers have been delegated concurrently to SEBI also.</p>

10. Clearing Corporation [Section 8A]	<ul style="list-style-type: none"> • A recognised stock exchange may, with the prior approval of SEBI may establish a Clearing Corporation. • Functions of Clearing Corporation includes: <ol style="list-style-type: none"> (a) the periodical settlement of contracts and differences thereunder; (b) the delivery of, and payment for, securities; (c) any other matter incidental to, or connected with, such transfer.
11. Conditions For Listing	<p>Section 21 of the Act provides that where securities are listed on the application of any person in any recognised stock exchange, such person shall comply with the conditions of the listing agreement with that stock exchange.</p>
12. Condition for continuous listing [Rule 19A of Securities Contract (Regulations) Rules, 1957]	<ul style="list-style-type: none"> • Every listed company other than Public Sector Company shall maintain public shareholding of at least 25%. • However, any listed company which has public shareholding below 25%, shall increase its public shareholding to at least 25%, within a maximum period of 12 months from the date of such fall in the manner specified by SEBI.
13. Right to appeal to SAT, against Refusal	<p>The listed company and any person aggrieved by order of RSE, may file an appeal before SAT</p> <ul style="list-style-type: none"> • against the decision of RSE for de-listing the shares • Within 15 days from decision • Section 22 B to 22 E shall apply.

14. Establishment of Special Courts[Sec. 26A]	<p>(a) The Central Government may, for the purpose of providing speedy trial of offences under this Act, by notification, establish or designate as many Special Courts as may be necessary.</p> <p>(b) A Special Court shall consist of a single judge who shall be appointed by the Central Government with the concurrence of the Chief Justice of the High Court within whose jurisdiction the judge to be appointed is working.</p> <p>(c) A person shall not be qualified for appointment as a judge of a Special Court unless he is, immediately before such appointment, holding the office of a Sessions Judge or an Additional Sessions Judge, as the case may be.</p>
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SHORT NOTES

2011 - Dec [2] (a) Write a short note on the following :

(iv) Clearing corporation

(3 marks)

Answer :

- (I) **About Clearing Corporation: Under Section 8A(1) of Securities Contract (Regulations) Act, 1956** provides that a recognized stock exchange may with the prior approval of SEBI transfer the duties and functions of a clearing house to a clearing corporation, being a company incorporated under **the Companies Act, 2013** for the purpose of:
- the periodical settlement of contracts;
 - the delivery of and payment for securities;
 - any other matter incidental to or connected with such transfer.
- (II) **Example:** National securities clearing corporation Ltd. is a clearing corporation of NSE.

6.8

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

(i) Spot delivery contract

(3 marks)

Answer :

Spot delivery contract mean a contract which provides for:

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

DISTINGUISH BETWEEN

2011 - Dec [5] (a) Distinguish between of the following :

(i) 'Spot delivery' and 'special delivery'.

(3 marks)

Answer :

The delivery is said to be spot delivery if the delivery and payment for securities are to be made on the same day or next day.

A special delivery is one where the delivery is to be made after the delivery period fixed by the stock exchange authorities.

DESCRIPTIVE QUESTIONS

2010 - Dec [2] (a) Comment on the following statement :

(iv) "Demutualisation of stock exchanges is to convert the traditional stock exchanges into a company."

(3 marks)

Answer :

The statement “Demutualisation of stock exchanges is to convert the traditional stock exchanges into a company” is correct.

Demutualisation refers to the transition process of an exchange from a “mutually – owned” association to a company “owned by shareholders”. In other words, transforming the legal structure of an exchange from a mutual form to a business corporation form is referred to as demutualization. The above, in effect means that after demutualization, the ownership, the management and the trading rights at the exchange are segregated from one another.

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

- (iii) “Stock exchanges are virtually the nerve centre of the capital market.” **(2 marks)**

Answer :

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

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

- (ii) Multiple listing
(iii) Clearing
(iv) Circuit breaker.

(3 marks each)

Answer:

- (ii) **Multiple Listing**

SEBI (ICDR) Regulations, 2009 provides that in case of an initial public offer, the company is required to make an application for listing of the specified securities in at least one recognized stock exchange having nationwide trading terminals. Further, it can make an application to one or more recognized stock exchanges for listing of specified securities on such stock exchanges and choose one of them as the designated stock exchange. Thus, a company can list its securities is more than one stock exchange. This is multiple listing.

- (iii) **Clearing**

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

(iv) **Circuit Breaker**

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

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

Answer:

As per **Rule 19A after Securities Contracts (Regulation) (Second amendment) Rules, 2014:**

1. Every listed company shall maintain public shareholding of at least 25%.
"Provided that every listed public sector company which has public shareholding below 25%, on the date of commencement of the **Securities Contracts (Regulation) (Second Amendment) Rules, 2014**, shall increase its public shareholding to at least 25%, within a period of 3 years, in the manner, as may be specified, by SEBI.
For the purposes of this sub-rule, a company whose securities has been listed pursuant to an offer and allotment made to public in terms of **sub-clause (ii) of clause (b) of sub-rule (2) of rule 19**, shall maintain minimum 25%, public shareholding from the date on which the public

shareholding in the company reaches the level of 25% in terms of said sub-clause.

2. Where the public shareholding in a listed company falls below 25%, at any time, such company shall bring the public shareholding to 25%. Within a maximum period of 12 months from the date of such fall in the manner specified by the SEBI.

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

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

Answer:

The statement is correct and it highlights the basic nature of derivative contract. Derivative can be defined as a contract, whose value depends upon one or more other assets i.e. called underlying assets. Here underlying assets may be anything, ranging from commodity to a stock market Index. Derivatives can also be defined as a security derived from a debt instrument, shares, loans, whether secured or unsecured, risk instrument or contract for differences or any other form of security.

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

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

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

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

Answer :

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

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

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

Answer:

(i) Meaning of Demutualization:

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

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

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

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

Answer:

- (i) **Definition of Demutualisation:** It means the segregation of ownership and management from the trading rights of members of a recognised stock exchange in accordance with the scheme approved by the SEBI.
- (ii) **Scheme of Demutualisation:** SEBI issued scheme of demutualization to BSE and other Regional Stock Exchanges. The important features of the demutualisation exercise are as follows :
1. The board of a stock exchange should consist of 75% public interest/ shareholder directors and only 25% broker directors, and
 2. 51% shareholding of the stock exchange should be divested to public/ investors other than trading member brokers and only 49% of shareholding can remain with the trading member brokers. This will transform our broker-owned stock exchanges into professionally-run corporate stock exchanges.
- The options prescribed for divestment/dilution of brokers' shareholding in a stock exchange are as follows:
1. Offer for sale, by issue of prospectus of shares held by trading member brokers.
 2. Private placement of shares (either of the shares held by the member brokers or new shares by the exchange) to any person or group of persons subject to the prior approval of SEBI and the maximum limit of 5% to any single person/group of persons.
 3. Fresh issue of shares to the public through an IPO.
- (iii) **Purpose of Demutualisation:** The purpose of demutualisation is as follows:
1. Stock exchanges owned by members tend to work towards the interest of members alone, which could on occasion be detrimental to rights of other stakeholders. Division of ownership between members and outsiders can lead to a balanced approach, remove conflicts of interest, create greater management accountability.
 2. Publicly owned stock exchanges can enter into capital market for expansion of business.
 3. Publicly owned stock exchange would be more professionally managed than broker owned.

4. Demutualisation enhances the flexibility of management.

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

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

Answer:

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

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

NOTES:

- (i) No rules made by RSE to restrict voting power will be effective till it is approved by the CG and published in the Official Gazette.
- (ii) If there is any conflict between the provision of the **Companies Act, 2013** and rules made here, the rules will be effective ignoring the provisions of the **Companies Act, 2013**.

PRACTICAL QUESTIONS

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

Answer:

To,
The Board of Directors,
Vision Ltd.

Sub: Regarding delisting of shares from Delhi Stock Exchange
Sir/ Madam,

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

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

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

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

Sd/-----

Mr. X

(Company Secretary)

Vision Ltd.

TOPIC NOT YET ASKED BUT EQUALLY IMPORTANT FOR EXAMINATION

SHORT NOTES

Q.1: Write Short notes on the powers of Central Government for suspending business of recognised Stock exchange(RSE)?

Answer:

- (i) **Power of CG:** Section 12 empowers the Central Government to make an order directing a recognized stock exchange to suspend its business.
- (ii) **Conditions:** Following conditions are required to be fulfilled for exercising the aforesaid power:
- (a) The Central Government must form an opinion that some emergency has arisen and for the purpose of meeting the emergency. It is expedient to suspend the business of the stock exchange.
 - (b) The Central Government shall issue a notification in the Official Gazette that the business exchange.
 - (c) The Central Government shall specify the reasons in the notification published in the official Gazette.
 - (d) The suspension of such business shall be subject to such condition as may be specified in the notification.
 - (e) The suspension of business shall be for such period, not exceeding 7 days or such extended period, as may be specified in the notification.

Q.2: Short notes on right to receive dividend declared by the company under Sec. 27 of SCR (A) , 1956?

Answer:

- (i) **Entitlement:** A person, whose name appears on the books of a company, in respect of certain shares is legally entitled to receive and retain any dividend declared by the company, irrespective of the fact that he has already transferred the shares for consideration. However, where the transferee makes a claim for the dividend and furnishes the Shares Certificate and other document relating to transfer to the company for registration of shares in his name, within 15 days of the date on which the dividend became due, the dividend shall be paid to the transferee.
- (ii) **Extension of Time:** It may be noted that the prescribed period of 15 days shall be extended by the following period;
- (a) In case of death of the transferee, by the actual period taken by this legal representative to establish his claims;

- (b) In case of loss of transfer deed, by the actual period taken for the replacement period:
- (c) In case of delay due to causes connected with post, by the actual period of delay.

DESCRIPTIVE QUESTIONS

Q.1: What are the powers of Central Government with respect to making of rules or directing to RSE for making the rules ?

Answer:

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

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

- (i) The Central government shall consult the governing body of the stock exchange.
- (ii) The Central Government must form an opinion that it is necessary or expedient to make such an order.
- (iii) The Central Government shall specify the reasons for making such an order.
- (iv) The order to make any rules or to amend any rules already made shall be given only in respect of the matters specified in section 3(2), i.e., the provisions relating to governing body, officer bears and members of the stock exchange, and admission of firm as a member of the stock exchange.

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

Q.2: What are the right to receive income from collective investment scheme under Section 27B of SC (R) A, 1956?

Answer:

- (i) **Entitlement:** A person whose name appears on the books of a collective investment scheme in respect of certain securities/unit is legally entitled to receive and retain any income declared by the collective investment scheme, irrespective of that he has already transferred the securities/ units for consideration. However, where the transferee makes a claim for the income and furnishes the securities/units Certificate and other documents relating to transfer to the collective investment scheme for registration of securities/ units in his name, within 15 days of the date on which the income became due, the income shall be paid to the transferee.
- (ii) **Extension:** It may be noted that the prescribed period of 15 days shall be extended by the following period:
- (a) In case of death of the transferee, by the actual period taken by his legal representative to establish his claim;
 - (b) In case of loss of transfer deed, by the actual period taken for the replacement thereof;
 - (c) In case of delay due to causes connected with post, by the actual period of delay.

Q.3: What are the special provisions related to commodity derivatives as per SC(R)A, 1956?

Answer:

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

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

purchase of any goods or class of goods, the Central Government may, by notification, declare that in the said area or any part thereof as may be specified in the notification all or any of the provisions of this Act shall not apply to transferable specific delivery contracts for the sale or purchase of the said goods or class of goods either generally, or to any class of such contracts in particular.

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