

## Chapter 8 - Securities Contracts (Regulation) Act, 1956

### • Objective -

An act to prevent undesirable transaction in securities by regulating the business of dealing therein, by providing for certain other matters connected therewith.

### ⇒ Non-Applicability.

The Govt. RBI, any Local authority or Corporation set up by Special Law.

convertible Bond or Share warrant or any option or right as it entitles a person in whose favour any of the foregoing has been issued.

central Govt. in the interest of trade & commerce or economic development of country may specify any class of contract as a contract to which act shall not apply.

### ⇒ Key-Definitions

#### ① Spot Delivery Contract.

Actual delivery of the securities and payment of price there of either on the same day or on the next day.

If the sec. are dealt with Depository  
↓  
transfer of securities by depository from acc. of one beneficial owner to acc. of another beneficial owner

#### ② Stock Exchange.

any body of individual whether incorporated or not constituted before incorporation or demutualisation.

A body corporate incorporated under companies Act, 2013 whether under the scheme of corporatisation or demutualisation

• For the purpose of assisting, regulating or controlling the business of buying, selling & dealing in securities.

#### ③ Derivatives :- Includes.

- Sec. derived from debt instrument Share, Loan whether secured or unsecured.
- contract which derived its value from prices or index of prices.
- commodity derivatives.

#### ④ Recognised Stock Exchange.

→ Stock Exchange for the time being recognised by central Govt.

#### ⑤ Government Security - means

→ securities created and issued before or after commencement of act by the Cgt for the purpose of raising public loan.

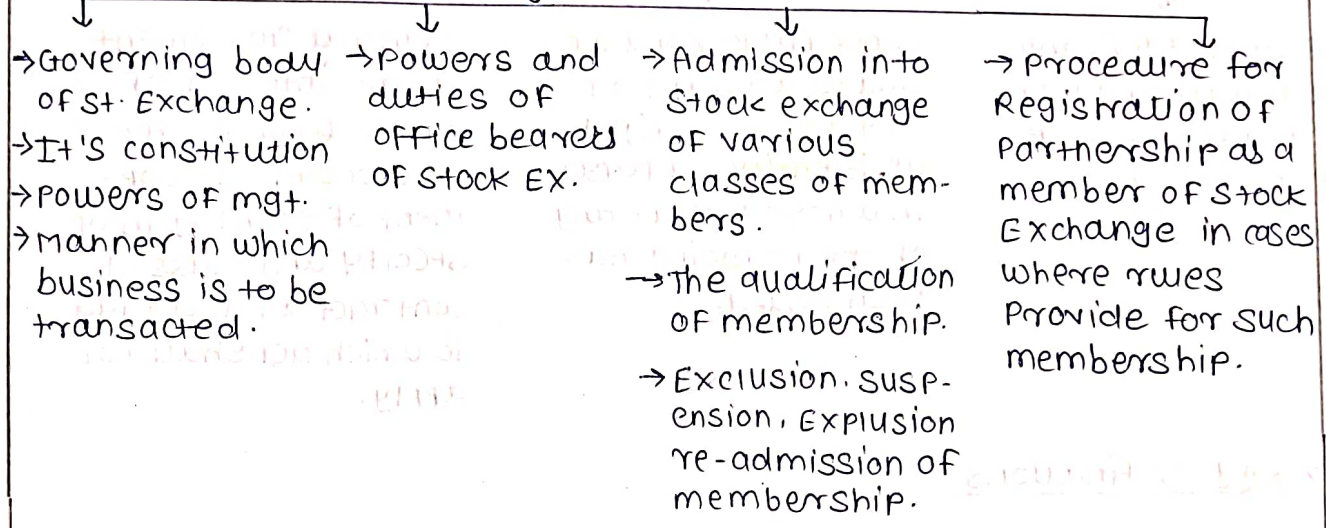
⇒ Recognition of Stock Exchanges

→ Application for Recognition of Stock Exchange :- [Section-3]

- For the purpose of granting Recognition, Stock exchange may make an application → to central Government.

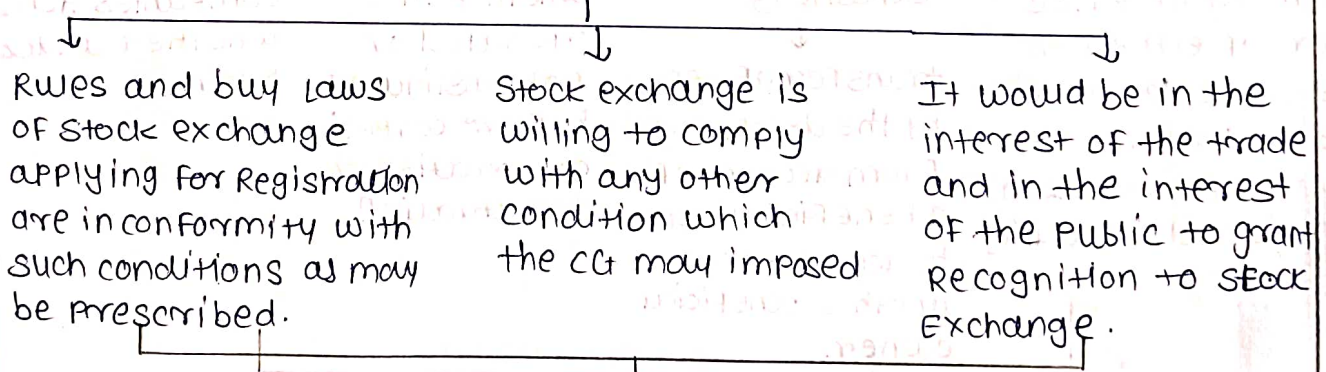
an application

shall contain



→ Grant of Recognition to Stock Exchange - [Section-4]

- If the central Government is satisfied after making such enquiry as may be necessary and after obtaining further information, if any, it may require that:



It may grant Recognition to SE subject to conditions imposed upon it

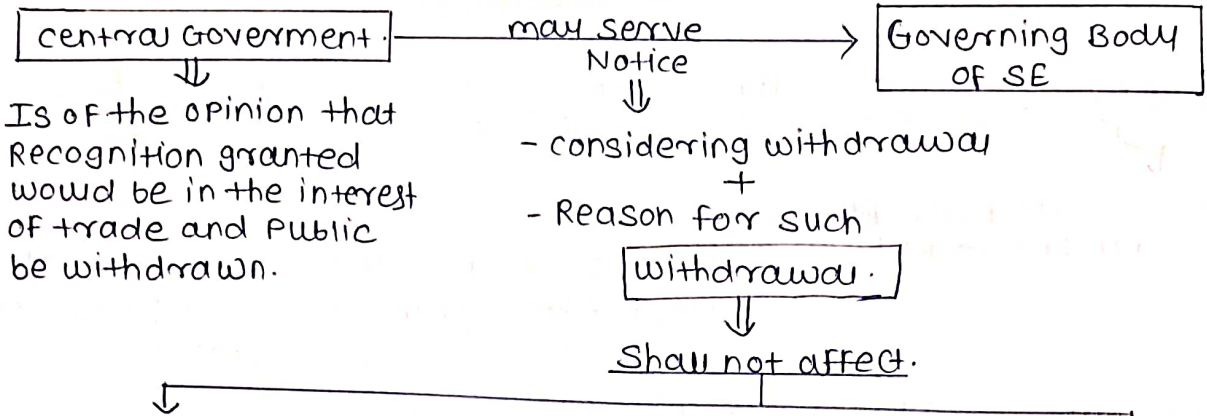
relating to

- qualification of membership of Stock exchange.
- Manner in which contract entered into members
- Representation of central Govt. on each of the stock ex. by such No. of person not exceeding 3.
- Maintenance of acc. of members and their audit by CA whenever required.

- Every Grant of Recognition shall Published in

→ Official Gazette of India (4)  
→ Official Gazette of State in which Principal ofc of SE is situated

→ Withdrawal of Recognition - [Section-5]



- validity of contract entered into or made before the date of Notification and
- central Government after consultation with SE make such provision as it deems fit in the notification of withdrawal or in any subsequent notification.

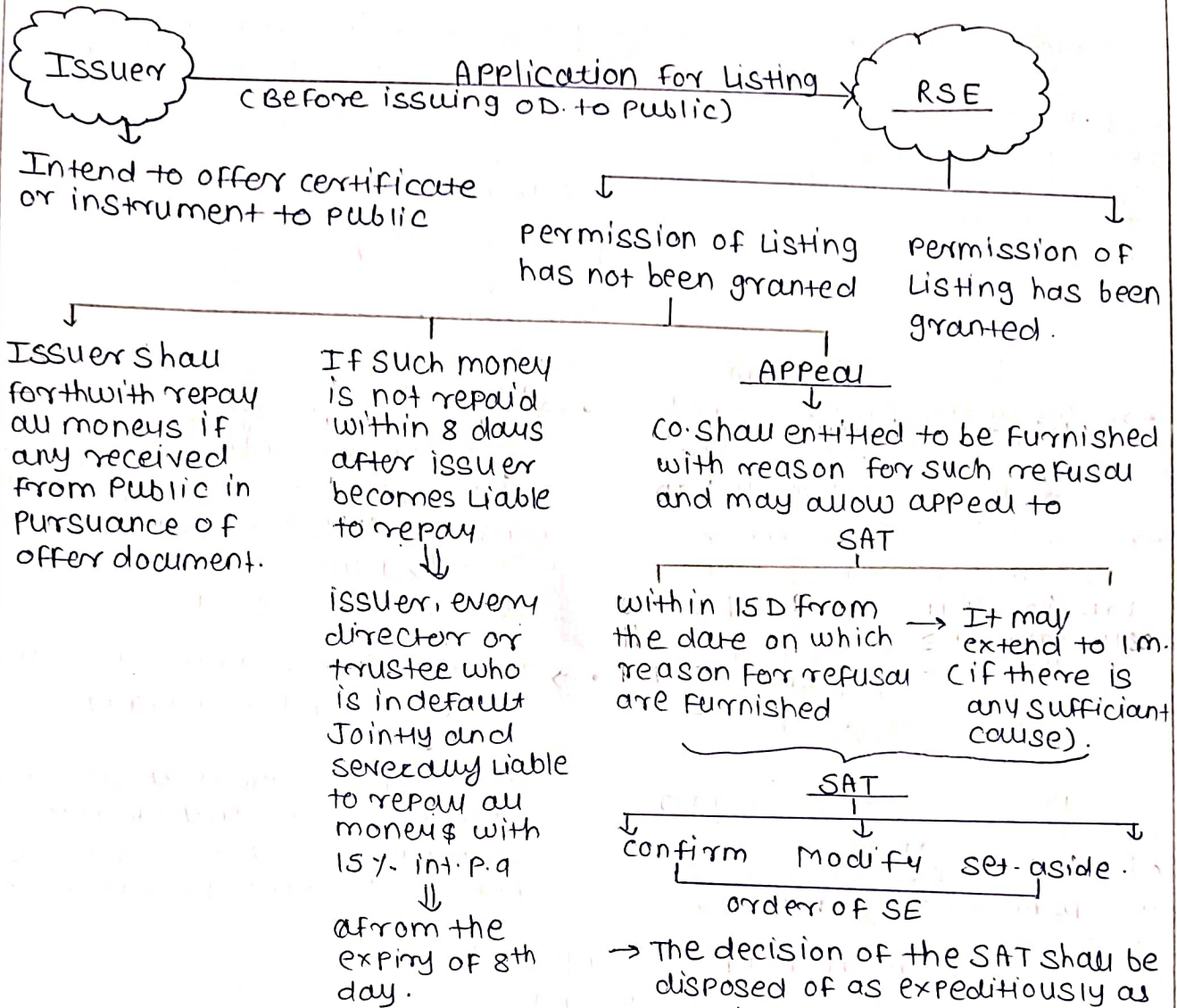
- where the Recognised SE has not been corporatized or demutualised or it fails to submit the scheme within specified time or scheme has been rejected by SEBI.
  - The Recognition granted to such SE shall stand withdrawn.
- ↓
- However withdrawal shall not affect the validity of any contract entered into or made before the date of notification.



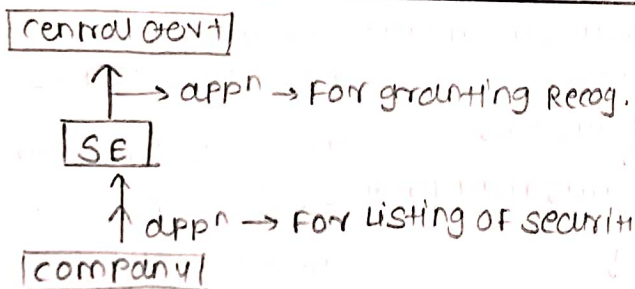
Powers conferred Under SCRA.

<u>Powers of CG</u>	<u>Powers of RSE</u>	<u>Powers of SEBI</u>
To call for Periodical return and direct enquiries to be made.	To make Rules restricting voting Rights.	To make or amend buy Laws of RSE
<u>Direct rules</u> or <u>make rules</u>	To make buy Laws ↓ Such buy Laws may provide for.	To Issue Direction
To <u>supersede</u> Governing body of RSE.	↓	To make Regulation
To <u>supersede</u> business of RSE	- op. & cl. of market and registration of hr of trade.	To Adjudicate.
To <u>prohibit</u> contract in certain cases.	- Fixing, altering, postponing of days of Settlement.	
To Grant immunity.	- Levy and Recovery of Price	
To <u>delegate</u> or <u>to make rules</u> .	- Separation of Fun <sup>n</sup> of Job and broker.	

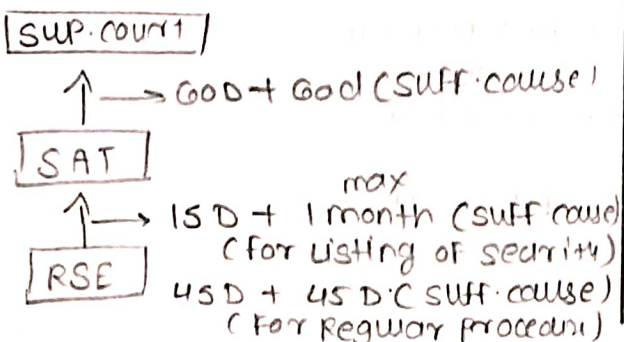
# Public issue and listing of Securities.



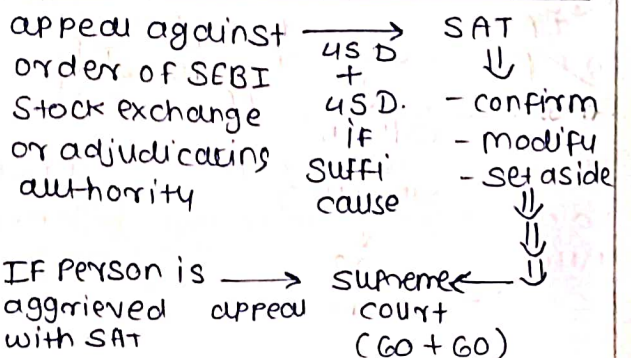
## ⇒ concept check 1



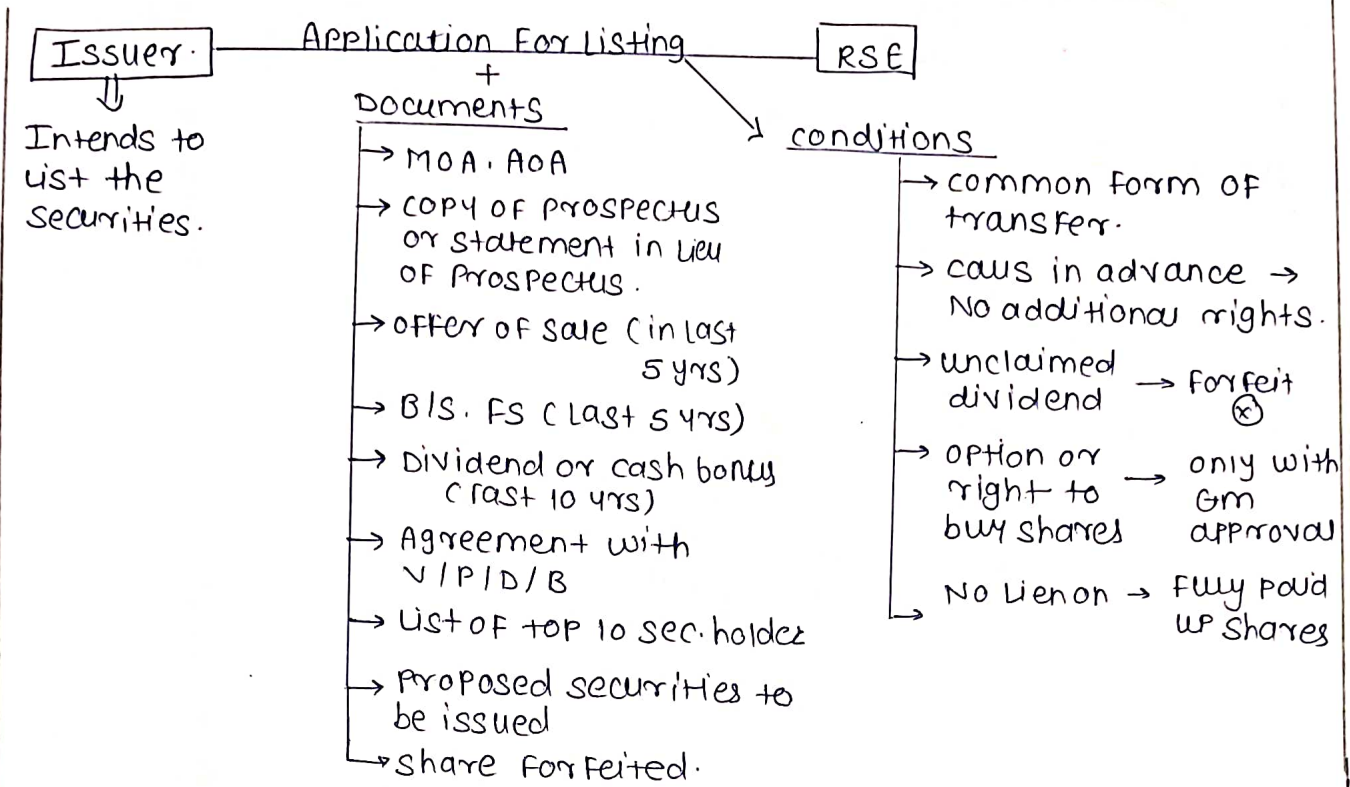
## ⇒ Appeal → CRUX



## ⇒ Regulatory Procedure of Appeal.



⇒ Securities Contract (Regulation) Rules, 1957.



⇒ Minimum Public Shareholding :-

Post issue cap. (calculated as per offer price)	Mini Public Sh. hold.
UP to 1600 cr.	25%
> 1600 cr - 4000 cr	400 cr.
> 4000 cr - 1,00,000 cr.	10% <span style="font-size: small;">↑ to 25% in 3 yrs</span>
> 1,00,000 cr.	5% <span style="font-size: small;">10% - 2 yrs, 25% - 5 yrs</span>

⇒ suspension or withdrawal from Stock Exchange.

- SE may suspend or withdraw any company from listing in case of breach or non-compliance
- company has to give an opportunity of being heard in writing
- IF co. → withdrawn or → suspended for more than 3 month  
 ↓  
 co. may file appeal to SAT.
- SE either by itself or on order of SAT, may re-admit the co.

⇒ Minimum public shareholding to be always to be maintained - 25%

⇒ Timeline to comply with minimum Public Shareholding.

- IF any co.'s min Public shareholding fails below 25% → within 12 m.
- IF the co. is below the limit because of CIRP → Never Fall below 5%  
 ↓  
 within 12 m → 10% min Pub shh.  
 within 3 yrs → 25% min Pub shh.

## ⇒ Penalties and Procedure

→ If any person contravenes the provision of this Act → Imprisonment = up to 10 years

or  
Fine = 25 cr.  
or

Both.

→ If any person failed to pay penalty imposed or fails to comply with the direction or orders → Imprisonment = 1 m - 10 yrs

or  
Fine = 25 cr.  
or

Both.

## ⇒ Regulation and Rules made Under SCRA

1. securities contracts (Regulation) Rules, 1957.
2. securities contracts (Regulation) (Stock exchange and clearing corporation) Regulation 2018.
3. securities contracts (Regulation) (procedure for holding inquiry and imposing penalty) Rules 2005.
4. securities contracts (Regulation) (Appeal to securities appellate tribunal) Rules 2000.