

Deputy General Manager
Market Regulation Department
E-mail: sundaresanvs@sebi.gov.in

MRD/DoP/SE/Cir-38/2004
October 28, 2004

The Executive Directors/Managing Directors/Administrators
of All Stock Exchanges

Dear Sir / Madam,

Sub: Comprehensive guidelines for Investor Protection Fund/Customer Protection Fund at Stock Exchanges

1. The Central Government, vide notification No. F.No. 14/4/SE/85 dated August 22, 1985, has stipulated the setting up of the Investor Protection Fund (IPF)/ Customer Protection Fund (CPF) by the Stock Exchanges. It was contemplated to create a compensation fund to take care of the legitimate investment claims which are not of speculative nature of the clients of a defaulting member. It was proposed that the claim of each non member may be limited to a maximum amount of Rs. 10,000/-. SEBI vide circular No. SMD/RCG/PJ/268/96 dated January 19, 1996, advised, inter-alia, the Stock Exchanges to increase the compensation available against a single claim of an investor against the defaulter member broker to Rs. 1,00,000/- in case of major Stock Exchanges, Rs. 25,000/- in case of smaller Stock Exchanges viz., Guwahati, Bhubaneshwar, Magadh and Madhya Pradesh and Rs.50,000/- in case of other Stock Exchanges.
2. During the course of the inspection of the Stock Exchanges, it has been observed by SEBI that the Stock Exchanges were following varying practices with respect to the setting up, management of and the disbursements from the IPF/CPF.
3. With a view to bring about uniformity in the practices followed by Stock Exchanges with respect to the constitution, management and the utilisation of the IPF/CPF at the Stock Exchanges, the provisions of the IPF/CPF have been reviewed and consolidated. The Comprehensive Guidelines on the IPF/CPF are enclosed as Annexure. These Guidelines are being issued after a due consultative process with the public and after the approval of the Secondary Market Advisory Committee of SEBI.
4. The Stock Exchanges are advised to:
 - 4.1 ensure that their IPF/CPF is in line with the provisions of the above mentioned guidelines and take steps to make necessary amendments to

the relevant bye-laws, rules and regulations for the implementation of the above decision immediately.

4.2 bring the provisions of this circular to the notice of the member brokers/clearing members of the Exchange and also to disseminate the same on the website.

4.3 communicate to SEBI, the status of the implementation of the provisions of this circular in Section II, item no. 13 of the Monthly Development Report.

5. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

V S SUNDARESAN

**Comprehensive guidelines for Investor Protection Fund (IPF) / Customer Protection Fund (CPF)
at Stock Exchanges**

Constitution and Management of the IPF/CPF

1. The Investor Protection Fund/Customer Protection Fund (hereinafter referred to as IPF/CPF) shall be administered by way of a Trust created for the purpose.
2. The IPF/CPF Trust shall consist of atleast one public representative, one representative from the registered investor associations recognized by SEBI and the Executive Directors/Managing Directors/Administrators of the Stock Exchange.
3. The Stock Exchange shall provide the secretariat for the IPF/CPF Trust.
4. The Stock Exchange shall ensure that the funds in the IPF/CPF are well segregated and that the IPF/CPF is immune from any liabilities of the Stock Exchange.

Contribution to IPF/CPF

5. The following contributions shall be made by the Stock Exchange to the IPF/CPF :-
 - a. 1% of the listing fees received, on a quarterly basis.
 - b. 100 % of the interest earned on the 1% security deposit kept by the issuer companies at the time of the offering of securities for subscription to the public, immediately on refund of the deposit.
 - c. The difference of amount of auctions / close-out price in pursuance of circular no. SMDRP/Policy/Cir-10/1999 dated May 04, 1999.
 - d. The amount received from the proceeds of the sale of the securities written off as per para 4 & 5 of SEBI circular No. FITTC/FII/02/2002 dated May 15, 2002.
 - e. The amounts specified in pursuance of Regulation 28(12) (e) (ii), Regulation 28(13) and Regulation 29 (2) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.
6. As regards the contribution towards the IPF based on the transaction charges collected from the members of the exchange, the Stock Exchanges shall continue with the present practice followed by the respective Stock Exchanges.

Manner of filing /inviting claims from investors

7. In accordance with its bye-laws, rules or regulations, the Stock Exchange shall publish a notice inviting the legitimate claimants to file claims against the defaulter member brokers within a specified period of time, called as the "specified period".
8. The specified period shall not be less than one month or twenty five working days, whichever is more.
9. The Stock Exchange shall publish the notice in all the editions of atleast one English national daily with wide circulation and in atleast one regional language daily with wide circulation at the place where the Stock Exchange is situated.

10. The notice calling for claims shall also be displayed on the premises of the Stock Exchange as well as on the web-sites of the Stock Exchange for the entire specified period.
11. The notice shall contain the specified period, the maximum compensation limit for a single claim of an investor, etc.

Eligible Claims

12. The claims received against the defaulter members during the specified period shall be eligible for compensation from the IPF/CPF.
13. The IPF/CPF Trust however, may, if it is satisfied that the claims could not have been filed during the specified period for reasons beyond the control of the claimant, entertain claims received even after the specified period.
14. The claims of the investors/clients shall be eligible for compensation from the IPF/CPF and in no case the claims of a broker or an associate of the member broker of the Stock Exchange shall be eligible for compensation out of the IPF/CPF.
15. The claims of the investors/clients arising out of speculative transactions shall not be eligible for compensation from the IPF/CPF. The claim should not be a sham or collusive.

Determination of Legitimate Claims

16. The IPF/CPF Trust may adopt the arbitration mechanism at the Stock Exchange to determine the legitimacy of the claims received from the claimants.
17. The IPF/CPF Trust may also seek the advice of the Defaulters Committee to sanction and ratify the payments to be made to the investors.

Threshold limit for claims

18. The Stock Exchanges are free to fix suitable compensation limits, in consultation with the IPF/CPF Trust. However, the amount of compensation available against a single claim of an investor arising out of default by a member broker of a Stock Exchange shall not be less than Rs. 1 lakh in case of major Stock Exchanges viz., BSE and NSE, and Rs. 50,000/- in case of other Stock Exchanges.
19. The Stock Exchange, in consultation with the IPF/CPF Trust, shall review and progressively increase the amount of compensation available against a single claim from an investor, atleast every three years.
20. The Stock Exchange shall disseminate the compensation limit fixed by them and any change thereof, to the public through a Press Release and also through its web site.

Disbursements of claims from the IPF/CPF

21. The IPF/CPF Trust shall disburse the amount of compensation from the IPF/CPF to the investor and such a compensation shall not be more than the maximum amount fixed for a single claim of an investor.
22. The IPF/CPF need not wait for the auction of the card of the defaulter member broker to realise the assets and the liabilities position of the defaulter member before the disbursements of the claims.
23. The IPF/CPF Trust shall disburse the compensation to the investors as and when claims have been crystallised against the defaulter.
24. The Stock Exchange shall ensure that the amount realised by the auction / close-out of the card / realisation of assets of the defaulter members are credited to the IPF/CPF after satisfying the

claims of the Stock Exchange and the SEBI in accordance with the bye-laws of the Stock Exchange.

Miscellaneous

25. Post-demutualisation, the balance of the IPF/CPF lying un-utilised with the Stock Exchanges, shall continue to be utilised only for such purposes as prescribed by SEBI.
26. However, if the Stock Exchange is wound up post-demutualisation, then the balance in the IPF/CPF lying un-utilised with the Stock Exchange shall be transferred to SEBI. The funds will be maintained in a separate account and SEBI would act as trustee of these funds. The funds shall be utilised for purposes of Investor education, awareness, research e.t.c.
