

**NATIONAL SECURITIES CLEARING CORPORATION LIMITED  
(FUTURES & OPTIONS) REGULATIONS**

**INDEX**

Pg. Nos.

**INTRODUCTION** .....

**APPLICABILITY** .....

**1 DEFINITIONS**.....

    1.1 AMERICAN STYLE OPTION CONTRACT .....

    1.2 ASSIGNMENT.....

    1.3 AT THE MONEY OR NEAR THE MONEY STRIKE PRICE .....

    1.4 BOOKS OF ACCOUNTS, RECORDS AND DOCUMENTS .....

    1.5 CASH SETTLED DERIVATIVES CONTRACT.....

    1.6 CLEARING BANK.....

    1.7 CLIENT / CONSTITUENT.....

    1.8 CLOSING BUY TRANSACTION.....

    1.9 CLOSING SELL TRANSACTION .....

    1.10 CONTRACT MONTH .....

    1.11 CONTRACT VALUE .....

    1.12 CORPORATE ACTIONS .....

    1.13 DERIVATIVES CONTRACT.....

    1.14 F&O SEGMENT REGULATIONS .....

    1.15 EXERCISE .....

    1.16 EXERCISE OR STRIKE PRICE.....

    1.17 EXERCISE SETTLEMENT PRICE .....

    1.18 EXERCISE SETTLEMENT VALUE .....

    1.19 EXERCISE STYLE.....

    1.20 EXPIRATION DAY .....

    1.21 EXPIRATION TIME.....

    1.22 EUROPEAN STYLE OPTION CONTRACT.....

    1.23 FUTURES CONTRACT .....

    1.24 FUTURES STYLE PREMIUM SETTLEMENT .....

    1.25 IN THE MONEY STRIKE PRICE.....

    1.26 LAST TRADING DAY .....

    1.27 LONG POSITION .....

    1.28 MEMBERS' OPEN POSITION .....

    1.29 NOTIFICATION, NOTICE OR COMMUNICATION .....

    1.30 OPEN INTEREST .....

|          |   |
|----------|---|
| 1.31     | OUTSTANDING OBLIGATION.....   |
| 1.32     | OPENING BUY TRANSACTION .....   |
| 1.33     | OPENING SELL TRANSACTION .....  |
| 1.34     | OPTION CLASS .....  |
| 1.35     | OPTION CONTRACT .....   |
| 1.36     | OPTION HOLDER.....  |
| 1.37     | OPTION SELLER .....   |
| 1.38     | OUT OF THE MONEY STRIKE PRICE .....   |
| 1.39     | PREMIUM.....  |
| 1.40     | PREMIUM STYLE PREMIUM SETTLEMENT .....  |
| 1.41     | SERIES OF OPTIONS .....   |
| 1.42     | SETTLEMENT AMOUNT .....   |
| 1.43     | SETTLEMENT DATE .....   |
| 1.44     | SETTLEMENT PRICE .....  |
| 1.45     | SHORT POSITION .....  |
| 1.46     | SPECIFIED PERIOD .....  |
| 1.47     | TYPE OF OPTION.....   |
| 1.48     | UNDERLYING .....  |
| 1.49     | UNDERLYING SECURITY.....  |
| 1.50     | UNDERLYING SEGMENT .....  |
| <b>2</b> | <b>F&amp;O SEGMENT.....</b>   |
| 2.1      | SPECIFIED EXCHANGE .....  |
| 2.2      | F&O CLEARING MEMBERS .....  |
| 2.3      | CATEGORIES OF F&O CLEARING MEMBERS .....  |
| 2.4      | COLLECTION OF SECURITIES TRANSACTION TAX .....                                      |
| <b>3</b> | <b>PROVISIONS REGARDING CLEARING &amp; SETTLEMENT OF DERIVATIVES CONTRACT .....</b> |
|          | DEALS, TRANSACTIONS AND DEALINGS .....  |
| 3.1      | CLEARING AND SETTLEMENT REGULATIONS FORM PART OF CONTRACTS .....                    |
| 3.2      | REPORTING OF DERIVATIVES CONTRACT .....   |
| 3.3      | CLEARING AND SETTLEMENT OF DERIVATIVES CONTRACT .....                               |
| 3.4      | CHANGE IN SETTLEMENT PROCEDURE .....  |
| 3.5      | NOTICES AND DIRECTIONS.....   |
| 3.6      | FALSE OR MISLEADING STATEMENTS.....   |
| 3.7      | CHARGES FOR CLEARING .....  |
| 3.8      | CLEARING CORPORATION BILLS .....  |

|           |   |
|-----------|---|
| 3.9       | LIABILITY OF THE CLEARING CORPORATION .....   |
| 3.10      | CLEARING DAYS AND SCHEDULED TIMES.....  |
| 3.11      | ALTERATION OF THE CLEARING DAYS AND<br>SCHEDULED TIMES .....  |
| 3.12      | OPEN POSITIONS .....  |
| 3.13      | OFFSET NOT AUTOMATIC .....  |
| 3.14      | ADJUSTMENT OF POSITIONS IN DERIVATIVES CONTRACTS<br>ON ACCOUNT OF CORPORATE ACTIONS IN UNDERLYING<br>SECURITY ..... |
| 3.14.1    | .....   |
| 3.14.2    | ADJUSTMENT .....  |
| 3.15      | PAYMENT BY CLEARING MEMBER .....  |
| <b>4</b>  | <b>MARGINS AND CLEARING/EXPOSURE LIMITS .....</b>   |
| 4.1       | MARGIN .....  |
| 4.2       | MODE OF PAYMENT OF MARGIN.....  |
| 4.3       | WITHHOLDING MARGIN .....  |
| 4.4       | ADDITIONAL MARGIN .....   |
| 4.5       | MARGIN FROM THE CONSTITUENTS.....   |
| 4.6       | PAYMENT OF MARGINS.....   |
| 4.7       | STATEMENT OF SHORTAGE /DEFAULT IN PAYMENT<br>OF MARGINS.....  |
| 4.8       | CLEARING/EXPOSURE LIMIT .....   |
| 4.9       | EXCEEDING CLEARING/EXPOSURE LIMITS.....   |
| <b>5</b>  | <b>SETTLEMENT OF FUTURES CONTRACTS .....</b>  |
| 5.1       | DAILY MARK TO MARKET SETTLEMENT FOR<br>FUTURES CONTRACTS.....   |
| 5.2       | DAILY SETTLEMENT PRICE .....  |
| 5.3       | ADVANCE CALL FOR DAILY MARK TO MARK .....   |
| 5.4       | SETTLEMENT OF FUTURES CONTRACTS WHICH<br>ARE CLOSED-OUT.....  |
| 5.5       | FINAL SETTLEMENT .....  |
| 5.6       | FINAL SETTLEMENT PRICE .....  |
| 5.7       | CLEARING FORMS.....   |
| 5.8       | DAILY AND FINAL SETTLEMENT OBLIGATIONS<br>STATEMENTS .....  |
| 5.9       | MODE OF PAYMENT.....  |
| 5.10      | RECEIPT OF FUNDS .....  |
| <b>5A</b> | <b>SETTLEMENT OF OPTION CONTRACTS.....</b>  |

|          |   |
|----------|---|
| 5A.1     | DAILY PREMIUM SETTLEMENT FOR OPTION<br>CONTRACTS .....                              |
| 5A.2     | EXERCISE .....  |
| 5A.3     | ASSIGNMENT.....   |
| 5A.4     | EXERCISE SETTLEMENT.....  |
| 5A.5     | CLEARING FORMS.....   |
| 5A.6     | SETTLEMENT OBLIGATIONS STATEMENTS.....  |
| 5A.7     | MODE OF PAYMENT .....   |
| 5A.8     | RECEIPT OF FUNDS .....  |
| <b>6</b> | <b>CLOSING OUT .....</b>  |
| 6.1      | TRANSFER OF OPEN POSITIONS AND CLOSING-OUT<br>WHEN EFFECTED .....                   |
| 6.2      | CLOSING-OUT IN SPECIFIC CASES .....   |
| 6.3      | CLEARING CORPORATION ENTITLED TO CLOSE- OUT<br>WITHOUT NOTICE .....                 |
| 6.4      | CLOSING-OUT CONTRACTS WITH DEFAULTER F&O<br>CLEARING MEMBER .....                   |
| 6.5      | CLOSING-OUT CONTRACTS WITH DECEASED F&O<br>CLEARING MEMBER .....                    |
| 6.6      | CLOSING-OUT HOW EFFECTED.....   |
| 6.7      | BIDS AND OFFERS.....  |
| 6.8      | CLOSING-OUT CLEARING MEMBER'S RESPONSIBILITY  |
| 6.9      | POSTPONEMENT BY THE RELEVANT AUTHORITY ..   |
| 6.10     | SUSPENSION OR POSTPONEMENT OF CLOSING-OUT   |
| 6.11     | CLOSING-OUT AGAINST DEFAULTER .....   |
| 6.12     | CHARGES FOR CLOSING-OUT .....   |
| 6.13     | LOSS ARISING FROM CLOSING-OUT .....   |
| 6.14     | PROFIT ARISING FROM CLOSING-OUT.....  |
| 6.15     | DEFAULT IF CLOSING-OUT LOSS AND DAMAGE NOT PAID                                     |
| <b>7</b> | <b>CLEARING BANK .....</b>  |
| 7.1      | CLEARING CORPORATION TO REGULATE .....  |
| 7.2      | FUNCTIONS OF CLEARING BANK .....  |
| 7.3      | F&O CLEARING MEMBERS TO HAVE ACCOUNT WITH<br>THE CLEARING BANK.....                 |
| 7.4      | CLEARING BANK TO ACT AS PER THE INSTRUCTIONS<br>OF THE CLEARING CORPORATION .....   |
| 7.5      | CLEARING BANK TO INFORM CLEARING CORPORATION<br>OF DEFAULT IN FUNDS SETTLEMENT..... |

|           |   |
|-----------|---|
| 7.6       | MEMBERS TO AUTHORIZE CLEARING BANK .....                                  |
| 7.7       | CLEARING ACCOUNT(S) OF CLEARING CORPORATION<br>IN THE CLEARING BANK ..... |
| 7.8       | CLEARING NUMBER AND CLEARING FORMS .....                                  |
| 7.9       | SIGNING OF CLEARING FORMS .....   |
| 7.10      | SPECIMEN SIGNATURES .....   |
| <b>8</b>  | <b>RECORDS, ANNUAL ACCOUNTS &amp; AUDIT .....</b>                         |
| 8.1       | RECORDS .....   |
| 8.2       | RECORD MAINTENANCE .....  |
| 8.3       | ANNUAL ACCOUNTS AND AUDIT .....   |
| <b>9</b>  | <b>INSPECTION .....</b>   |
| 9.1       | INSPECTION AUTHORITY .....  |
| 9.2       | REASONS FOR INSPECTION .....  |
| 9.3       | NOTICE .....  |
| 9.4       | OBLIGATIONS OF A F&O CLEARING MEMBER ON<br>INSPECTION .....               |
| 9.5       | SUBMISSION OF REPORT .....  |
| <b>10</b> | <b>CODE OF CONDUCT FOR F&amp;O CLEARING MEMBERS ....</b>                  |
| 10.1      | GENERAL PRINCIPLES .....  |
| 10.1.1    | Professionalism .....   |
| 10.1.2    | Adherence To Clearing Practices .....                                     |
| 10.1.3    | Honesty And Fairness .....  |
| 10.2      | SETTLEMENT PRINCIPLES .....   |
| 10.3      | GENERAL GUIDELINES .....  |
| 10.3.1.   | Shielding Or Assisting .....  |
| <b>11</b> | <b>CONDUCT OF BUSINESS BY CLEARING MEMBERS .....</b>                      |
| 11.1      | OFFICE RELATED PROCEDURE .....  |
| 11.2      | SUPERVISION .....   |
| 11.2.1    | Procedures to be followed .....   |
| 11.2.2    | Internal inspections .....  |
| 11.2.3    | Written Approval .....  |
| 11.3      | RELATION WITH THE CONSTITUENTS .....                                      |
| 11.4      | RECOMMENDATIONS TO THE CONSTITUENTS .....                                 |
| <b>12</b> | <b>CLEARING AND OTHER FORMS .....</b>                                     |
| 12.1      | CLEARING FORMS, SPECIAL RETURNS AND OTHER FORMS                           |
| 12.2      | CLEARING NUMBER AND CLEARING FORMS .....                                  |
| 12.3      | SIGNING OF CLEARING FORMS .....   |

12.4 FALSE OF MISLEADING STATEMENTS .....

## **INTRODUCTION**

The Regulations framed hereunder shall be known as National Securities Clearing Corporation (Futures & Options Segment) Regulations, 2000.

### **APPLICABILITY**

These Regulations shall be applicable to all Clearing Members dealing in Futures & Options segment (F&O segment) of the Clearing Corporation. These Regulations shall also be applicable mutatis mutandis to all Clearing Members dealing in currency derivatives segment of the Clearing Corporation unless the context requires otherwise or unless otherwise specified by the relevant authority from time to time.

## **1. DEFINITIONS**

Unless in the context it is explicitly stated otherwise, all words and expressions used herein but not defined, and defined in the following, shall have the meanings respectively assigned to them therein:

- Securities Contracts (Regulation) Act, 1956 and /or Rules thereunder
- Securities and Exchange Board of India Act, 1992 and /or Rules thereunder
- The Companies Act, 1956
- The Depositories Act, 1996
- Rules, Bye-laws and/or Regulations of National Stock Exchange of India Limited
- Rules and Bye-Laws of Futures & Options Segment of National Securities Clearing Corporation Limited

In case a term is defined in more than one Act then its meaning as defined in that Act or statute which precedes in the above order shall prevail, unless in the context it is explicitly stated otherwise.

### **1.1 American style option contract**

American Style option contract means an option contract which may be exercised on any day, on or before the expiration day.

### **1.2 Assignment**

Assignment means an allocation of an option contract which is exercised, to a short position in the same option contract, at the same strike price, for fulfillment of the obligation, in accordance with the procedure as may be specified by the Relevant Authority, from time to time.

### **1.3 At the money or Near the money strike price**

‘At the money or Near the money’ strike price is the strike price of the option contract at or within such range of the underlying as may be specified by the Relevant Authority from time to time.

### **1.4 Books of Accounts, Records And Documents**

Books of accounts, records and documents include books of accounts, records and documents which are required to be maintained under Chapter 8 of the F&O Segment Regulations and records maintained in a computer or in any magnetic form.

**1.5 Cash Settled Derivatives contract**

Cash settled Derivatives Contract means a Derivatives Contract which shall be performed by cash settlement rather than by delivery of the underlying security.

**1.6 Clearing Bank**

Clearing Bank is such bank 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 and between clearing members as may be directed by the Clearing Corporation from time to time.

**1.7 Client/Constituent**

A client/Constituent means a person, on whose instructions and on whose account the Clearing Member clears and settles deals. For this purpose, the term “Client” shall include all registered constituents of trading members of Specified Exchange.

Explanation 1 : The terms ‘Constituent’ and ‘Client’ are used interchangeably in the Byelaws, Rules & Regulations and shall have the same meaning assigned herein.

Explanation 2 : For the purpose of chapter IX, X & XI of the Byelaws, the term ‘Constituent’ in relation to trades shall also include a trading member where such trades done on the Specified Exchange are cleared and settled on his behalf by a Clearing Member.

**1.8 Closing buy transaction**

Closing buy transaction means a buy transaction which will have the effect of partly or fully offsetting a short position.

**1.9 Closing sell transaction**

Closing sell transaction means a sell transaction which will have the effect of partly or fully offsetting a long position.

**1.10 Contract Month**

Contract month means the month in which the Clearing Corporation rules require a Derivatives Contract to be finally settled.

**1.11 Contract Value**

Contract Value is the value arrived at by multiplying the strike price of the option contract with the regular /market lot size.

### **1.12 Corporate Actions**

Corporate Actions mean and include dividend, bonus, rights shares, issue of shares as a result of stock split, stock consolidations, schemes of mergers / demergers, spin-offs, amalgamations, capital restructuring and such other privileges or events of a similar nature which may be specified by the Relevant Authority from time to time.

### **1.13 Derivatives Contract**

A contract which derives its value from the prices, or index of prices, of underlying securities, the trading of which shall be carried out in such manner as provided under the Bye-laws, Rules and Regulations.

Explanation: For the purpose of this definition, derivative includes 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.

### **1.14 F&O Segment Regulations**

F&O segment Regulations mean the National Securities Clearing Corporation (Futures & Options Segment) Regulations and includes business rules, code of conduct and such other procedures, circulars, directives and orders as issued by the Relevant Authority from time to time thereunder.

### **1.15 Exercise**

Exercise means the invocation of right, in accordance with and subject to Rules, Byelaws and Regulations of Clearing Corporation, by the option holder.

### **1.16 Exercise or Strike Price**

Exercise Price or Strike Price is the price per unit of trading, at which the option holder has the right either to buy or sell the underlying, upon exercise of the option.

### **1.17 Exercise Settlement Price**

Exercise Settlement price, in respect of Exercise Settlement, is the closing price of the underlying security on the day of exercise or such other price as may be decided by the relevant authority from time to time.

### **1.18 Exercise Settlement Value**

Exercise Settlement value, in respect of Exercise Settlement means the difference between the strike price and the exercise settlement price for each unit of trading of the option contract for the purpose of settlement.

**1.19 Exercise Style**

Exercise Style of an option refers to the price at which and/or time as to when the option is exercisable by the holder. It may either be an American style option or an European style option or such other exercise style of option as the Relevant Authority may prescribe from time to time.

**1.20 Expiration Day**

Expiration day means the day on which the final settlement obligations are determined in a Derivatives Contract

**1.21 Expiration time**

Expiration time is the close of business hours on the expiration day of the option contract or such other time as may be specified by the Relevant Authority from time to time. In this context, business hours shall include the time specified by the Specified Exchange, after the close of the trading hours, for the purpose of exercising option contracts.

**1.22 European style option contract**

European Style option contract means an option contract, which may be exercised on the expiration day on or before the expiration time.

**1.23 Futures Contract**

Futures Contract means a legally binding agreement to buy or sell the underlying security in the future.

**1.24 Futures style premium settlement**

Futures Style premium settlement means premium settlement of option contracts based on settlement system as specified by the relevant authority for futures contracts and will include initial margins and mark to market settlement on long and short option positions, in accordance with the Regulations as may be specified by the Relevant Authority from time to time.

**1.25 In the money strike price**

In the money strike price, in case of Put Option, is the strike price of the option contract which is above 'At the money or Near the money' strike price.

In the money strike price, in case of Call Option, is the strike price of the option contract which is below 'At the money or Near the money' strike price.

**1.26 Last Trading Day**

Last Trading Day means the day up to which a Derivatives Contract is available for trading in the specified exchange.

**1.27 Long Position**

Long Position in a Derivatives Contract means outstanding purchase obligations in respect of a Derivatives Contract at any point of time.

**1.28 Members' Open Position**

Members open position means the sum of long and short positions of the member and his client in any or all of the Derivatives Contracts outstanding with the Clearing Corporation.

**1.29 Notification, Notice Or Communication**

It refers to any such intimation that can be served by the Clearing Corporation to the Clearing Member at ordinary business address and/or ordinary place of residence and/or last known address of the party in any one or more or all of the following ways:-

- (a) delivering it by post
- (b) sending it by registered post
- (c) sending it under certificate of posting
- (d) sending it by express delivery post / courier services
- (e) sending it by telegram
- (f) affixing it on the door at the last known business or residential address
- (g) advertising it at least once in any prominent daily newspaper
- (h) sending a message through the Trading System of specified exchange
- (i) an electronic mail or fax

**1.30 Open Interest**

Open interest means the total number of Derivatives Contracts of a underlying security that have not yet been offset and closed by an opposite transaction nor fulfilled by delivery of the cash or underlying security. For calculation of open interest only one side of the Derivatives Contract is counted.

**1.31 Outstanding Obligation**

Outstanding obligation means the obligation which has neither been closed out nor been settled.

**1.32 Opening buy transaction**

Opening buy transaction means a buy transaction which will have the effect of creating or increasing a long position.

**1.33 Opening sell transaction**

Opening sell transaction means a sell transaction which will have the effect of creating or increasing a short position.

**1.34 Option Class**

Option contracts of the same type and style that cover the same underlying constitute an option class.

**1.35 Option contract**

Option Contract is a type of Derivatives Contract which gives the buyer/holder of the contract the right (but not the obligation) to buy and/ or sell the underlying security at a predetermined price within or at the end of a specified period. The option contract, which gives a right to buy, is called a Call Option and the option contract that gives a right to sell is called a Put Option.

**1.36 Option Holder**

Option holder is a person who has bought an option contract.

**1.37 Option Seller**

Option seller is a person who has sold an option contract.

**1.38 Out of the money strike price**

Out of the money strike price, in case of Put Option, is the strike price of the option contract which is below 'At the money or Near the money' strike price.

Out of the money strike price, in case of Call Option, is the strike price of the option contract which is above 'At the money or Near the money' strike price.

**1.39 Premium**

Premium is the price which the buyer of the option pays to the seller of the option for the rights conveyed by the option contract.

**1.40 Premium style premium settlement**

Premium Style Premium Settlement means payment of full option premium by the buyer/ holder of an option contract to the seller of the option contract, on purchase of such option contract by the buyer/ holder.

**1.41 Series of Options**

Series of Options means all options of the same class having the same exercise price and expiration day.

**1.42 Settlement Amount**

Settlement amount shall include premium settlement amount and/ or exercise settlement amount and /or such other amount as may be specified by the Relevant Authority from time to time.

**1.43 Settlement Date**

Settlement date means the date on which outstanding obligations in a Derivatives Contract are required to be settled as provided in these Regulations.

**1.44 Settlement Price**

Settlement price, in respect of Exercise Settlement, is the closing price of the underlying on the day of exercise or such other price as may be decided by the Relevant Authority from time to time.

**1.45 Short Position**

Short Position in a Derivatives Contract means outstanding sell obligations in respect of a Derivatives Contract at any point in time.

**1.46 Specified period**

Specified period for an option contract is the time period between the start day and the expiration time.

**1.47 Type of option**

Type of option means the classification of an option as either a put or a call.

**1.48 Underlying**

Underlying is one with reference to which derivative contracts are permitted to be traded by the Specified Exchange from time to time.

**1.49 Underlying security**

Underlying Security means a security with reference to which a Derivatives Contract is permitted to be traded on the F&O segment of the Specified Exchange from time to time.

**1.50 Underlying Segment**

Underlying segment refers to the segment of the Specified Exchange where the relevant authority may admit dealings in the underlying security.

The term ‘Rules, Bye-laws and Regulations’ used herein is in relation to Rules, Bye-laws and Regulations of F&O Segment of Clearing Corporation unless explicitly stated otherwise and shall mean and

include the Rules, Bye-laws and Regulations of F&O Segment of Clearing Corporations in force from time to time.

## **2. F&O SEGMENT**

### **2.1 Specified Exchange**

The relevant authority may from time to time admit transactions executed in specified exchanges after obtaining prior approval of SEBI.

For the purpose of these regulations, the following exchange is specified:

Futures and Options segment of National Stock Exchange, which exchange is hereinafter referred to as NSE for the purposes of these Regulations.

### **2.2 F&O Clearing Members**

“F&O Clearing Member” means a member of the Clearing Corporation and includes all categories of clearing members as may be admitted as such by the Clearing Corporation to the F&O Segment.

### **2.3 Categories Of F&O Clearing Members**

The following categories of F&O Clearing Members are specified as under :

#### **TM Clearing Member**

TM Clearing member means a member of a Specified Exchange and who is admitted by the relevant authority on the F&O Segment of the Clearing Corporation as a Clearing Member and who may clear and settle transactions either on its own account or on account of its constituents in the manner specified in these Regulations.

#### **Custodian Clearing Member**

Custodian Clearing Member means and includes Custodians and other firms admitted by the relevant authority as a F&O Clearing Member and who may clear and settle deals for the constituents of the members of the specified exchange in the manner specified in these regulations.

#### **Participant Clearing Member**

Participant Clearing Member means and includes banks, financial institutions, primary dealers and other RBI / SEBI regulated entities, admitted by relevant authority, who may clear and settle their own deals only in derivative contracts based on interest rates and such other underlying as may be specifically permitted by the relevant authority from time to time, put through a Trading Member of the Exchange in the relevant segment, by effecting delivery and in making and receiving payment for the same in the manner as may be prescribed from time to time.

#### **Professional Clearing Member**

Professional Clearing Member means a F&O Clearing Member who is admitted by the relevant authority and who may clear and settle deals either on its own account,

on account of its constituents and on account of members of the specified exchange and or its constituents.

#### **2.4 Collection of Securities Transaction Tax**

The Clearing Corporation shall, on behalf of the Exchange, collect the Securities Transaction Tax. Every Clearing Member shall remit to the Clearing Corporation the Securities Transaction Tax payable by the Trading Member of the Exchange in respect of the transactions entered into by him on the Exchange either on his own behalf or on behalf of his Constituents and cleared and settled through such Clearing Member in accordance with the procedures prescribed by the Relevant Authority from time to time for the calculation and collection of such tax. Any Clearing Member who fails to make the payment in accordance with the procedures, prescribed by the Relevant Authority from time to time, would be liable for such consequences of non-payment including but not limited to withdrawal of clearing facility, appropriation from the monies of the Clearing Member, withholding of pay-outs, etc. as may be prescribed from time to time.

### **3. PROVISIONS REGARDING CLEARING & SETTLEMENT OF DERIVATIVES CONTRACT**

#### **Deals, Transactions and Dealings**

For the purpose of these Regulations the terms “deals”, “transactions”, and “dealings” shall have one and the same meaning unless the context indicates otherwise.

#### **3.1 Clearing and Settlement Regulations Form Part Of Contracts**

The Regulations from time to time in force relating to any procedure for clearance and settlement of Derivatives Contract and the resolutions, notices, directions and decisions of the relevant authority for the time being in force shall be a part of the terms and conditions of every Derivatives Contract.

#### **3.2 Reporting of Derivatives Contract**

Derivatives Contract executed by the F&O Clearing Members shall be reported to the F&O Segment of the Clearing Corporation in such manner and form and within such time as may be specified from time to time by the relevant authority.

#### **3.3 Clearing and Settlement Of Derivatives Contract**

Clearing and Settlement of transactions on Derivatives Contract shall be cleared and settled through the Clearing Corporation by such process or processes as the relevant authority may from time to time prescribe.

#### **3.4 Change In Settlement Procedure**

It shall be competent for the relevant authority to order at any time that any or all deals entered into or to be entered into shall be settled by any other suitable processes as may be decided from time to time and every transaction shall be subject to any such change in settlement procedure or process.

#### **3.5 Notices And Directions**

All F&O Clearing Members shall comply with the instructions, resolutions, orders, notices, directions and decisions of the relevant authority in all matters connected with the operations of the Clearing Corporation.

#### **3.6 False Or Misleading Statements**

The relevant authority may fine, suspend or expel a F&O Clearing Member who makes any false or misleading statement in the Clearing Forms required to be submitted in conformity with these Regulations or any resolutions, orders, notices, directions and decisions of the relevant authority thereunder.

**3.7 Charges For Clearing**

The relevant authority shall from time to time prescribe the scale of clearing charges for the clearing and settlement of transactions through the Clearing Corporation.

**3.8 Clearing Corporation Bills**

The F&O Segment of the Clearing Corporation shall periodically render bills for the charges, clearing and such other fees, fines and other dues as may be payable by F&O Clearing Members to the Clearing Corporation on account of transactions cleared and settled through the F&O Segment of the Clearing Corporation and debit the amount payable by such members to their clearing accounts.

**3.9 Liability Of The Clearing Corporation**

No liability shall attach either to the Clearing Corporation or to the relevant authority or any employees/agents of the Clearing Corporation by reason of anything done or omitted to be done by the Clearing Corporation in the course of its operations.

**3.10 Clearing Days And Scheduled Times**

The relevant authority shall from time to time fix the various clearing days including the pay-in and pay-out days and the scheduled time to be observed in connection with the clearing and settlement operations of any or all Derivatives Contracts. The relevant authority may specify different schedules for any or all F&O Clearing Members from time to time.

**3.11 Alteration Of the Clearing Days And Scheduled Times**

The relevant authority may at any time curtail, extend, alter or postpone from time to time the entire clearing or any or all of the various clearing days and scheduled times in respect of any or all of the Derivatives Contract.

**3.12 Open Positions**

All contracts for the purchase or sale of any Derivatives Contract shall remain open and in force and shall continue to be binding upon the F&O Clearing Members and its constituents until liquidated by offsetting contract or such other method as may be specified by the relevant authority from time to time; provided however all open positions shall cease to exist after expiration day.

**3.13 Offset not automatic**

In case of deals in Derivatives Contracts having the same contract month and/or such other specifications as may be issued by the relevant authority from time to time, and pertaining to proprietary account, the

buy transactions and sell transactions shall offset each other automatically to the extent possible.

In the case of deals in Derivatives Contracts having the same contract month and/or such other specifications as may be issued by the relevant authority from time to time, and pertaining to client account, the buy transactions and sell transactions shall not offset each other unless the deals are specifically marked for offsetting at the time of entering into the trade for the same client.

**3.14 Adjustment of positions in derivatives contracts on account of corporate actions in underlying security**

3.14.1 The Relevant Authority may from time to time specify the provisions, relating to adjustments, including non-adjustment, in open positions, discontinuing any or all futures contracts and/or settlement methods and procedures for the relevant derivatives contracts, arising out of or incidental to corporate actions in the underlying security.

**3.14.2 Adjustment**

Adjustment shall mean and include modification in open positions and/or contract specifications in the relevant derivatives contracts, arising out of or incidental to corporate actions in the underlying security, in accordance with the Rules, Bye-laws and Regulations in force from time to time.

**3.15 Payment by Clearing Member**

The F&O segment of the Clearing Corporation shall treat all monies paid by F&O Clearing Members as monies paid to it by a principal and such monies in the hands of Clearing Corporation shall not be impressed with a trust or other equitable interest. Any payment by Clearing Corporation to any Clearing Member shall constitute good and sufficient discharge.

## **4. MARGINS AND CLEARING/ EXPOSURE LIMITS**

### **4.1 Margin**

The F&O Segment of the Clearing Corporation shall from time to time specify margin requirements for the F&O Clearing Members including initial margin on open positions through risk based algorithms. The F&O Clearing Members shall furnish and maintain such margins in such form and within such time as specified by the F&O Segment of the Clearing Corporation. Every F&O Clearing Member has a continuing obligation to maintain margins at the level and for the period stipulated by the F&O Segment of the Clearing Corporation from time to time.

The F&O Segment of the Clearing Corporation shall segregate in such manner as it may deem fit the margins deposited by the Clearing Member on its own account and on behalf of clients.

### **4.2 Mode of payment of Margin**

F&O Clearing Member shall be required to furnish margins either in the form of cash, deposit receipts, guarantee of a bank(s) and securities approved by the relevant authority or such other mode and subject to such terms and conditions as the relevant authority may specify from time to time.

### **4.3 Withholding Margin**

The F&O Segment of the Clearing Corporation shall at its discretion or on the instructions of the specified exchange withhold/release of any margin furnished by that F&O Clearing Member to the Clearing Corporation for any period required by the Specified Exchange / Clearing Corporation; If such a F&O Clearing Member has open positions he must continue to pay any further margin or other obligations without taking into account any margin so withheld by the Clearing Corporation.

### **4.4 Additional margin**

If in the opinion of the F&O segment of the Clearing Corporation sudden fluctuations of any Market operated by the Specified Exchange are apparent, the Clearing Corporation may call for additional margin. Additional margin shall be payable in the manner and within such time as may be specified from time to time.

### **4.5 Margin from the Constituents**

4.5.1 The F&O Clearing Members shall demand from its constituents the margin monies which the clearing member has to provide under these Regulations in respect of dealings done by the F&O Clearing Members for such constituents.

- 4.5.2 The F&O Clearing Members shall clear and settle deals in derivatives contracts on behalf of the constituents only on the receipt of such minimum margin as the relevant authority may decide from time to time, unless the constituents already has an equivalent credit with the clearing member. The clearing member may collect higher margins from constituents, as he deems fit.
- 4.5.3 The Clearing member as and when required by the Clearing Corporation shall inform the Clearing Corporation, specifically the amount deposited as margin on behalf of his constituents.
- 4.5.4 The Clearing Member shall not allow the utilisation of margin monies paid by one client to the margin money dues of his own account or of other clients’.

#### **4.6 Payment of Margins**

The clearing corporation shall treat all the margin and other monies paid by the clearing member as having been paid by and on his own behalf and appropriate the same accordingly for such purposes as it may deem fit under the Byelaws and Regulations ;

Provided that, the clearing member may identify and segregate margin payments made by him to Clearing Corporation as to whether it is on his own account or on account of his clients’.

#### **4.7 Statement of Shortage /Default in payment of margins**

- 4.7.1 In the event of non-performance of clearing member of his obligations or his being declared as defaulter, such clearing member shall submit to the clearing corporation, a statement containing a list of client codes, names of the clients, open positions of each client, client-wise margin amount due and paid to the clearing corporation, client-wise settlement amount payable to/receivable from the clearing corporation and client-wise settlement amount paid to the clearing corporation. The clearing member shall also specifically attribute such failure/shortage/default in payment of margins and/or settlement dues either to himself or his clients’ and the amount of such shortage/default.
- 4.7.2 The Clearing Corporation shall use such statement provided by the Clearing Member for appropriating the margin monies with the Clearing Corporation towards the dues of the Clearing Corporation to the extent of shortage/default of obligations and for the purpose of settling the amounts due to clients’, as the case may be, unless the contrary is proved to the satisfaction of the Clearing Corporation/Defaults Committee.
- 4.7.3 The Clearing Corporation shall appropriate the margin monies with the Clearing Corporation for settling the dues of the clients’ before settling the dues of the Clearing Members.

- 4.7.4 Notwithstanding the above, in the event of any Clearing Member being declared as a defaulter, the statement, furnished by the Trading Member to such Clearing Member, providing the amounts paid by Trading Member on his own account or is paid on behalf of his clients' shall be conclusive and binding on himself, his Clearing Member and all his clients' unless the contrary is proved to the satisfaction of the Clearing Corporation/Defaults Committee.

#### **4.8 Clearing/Exposure Limit**

- 4.8.1 The Clearing Corporation may at any time in its absolute discretion :
- (a) Prescribe maximum long and or short open positions for all or any of the F&O Clearing Members and their clients including quantity and or value for any or all Derivatives Contracts;
  - (b) Prescribe clearing/exposure limit for a market type either in quantity or value or as a percentage of the base capital of the F&O Clearing Member or a combination of any of the above or such other method as the relevant authority may decide from time to time for all or any of the F&O Clearing Members;
- 4.8.2 The Clearing Corporation may at any time impose, increase, reduce or remove any clearing/exposure limits pursuant to the above regulations by notifying the Specified Exchange and the relevant F&O Clearing Member(s). Any imposition, removal or change in clearing/exposure limits so notified shall take effect as stipulated in such notification.
- 4.8.3 The Clearing Corporation may at its discretion allow F&O Clearing Members to increase their clearing/exposure limit on deposit of additional base capital with the Clearing Corporation. The Clearing Corporation shall specify from time to time the method of calculation of base capital and mode of deposit of additional base capital.

#### **4.9 Exceeding clearing/exposure limits**

- 4.9.1 If a F&O Clearing Member exceeds any clearing/exposure limit imposed, the Clearing Corporation shall be entitled to require the F&O Clearing Member to close out open positions or take such other measures as may be specified by the relevant authority from time to time, which may in the opinion of the Clearing Corporation result in the F&O Clearing Member complying with the clearing/exposure limits.
- 4.9.2 If a F&O Clearing Member fails to comply with any requirement of the Clearing Corporation, the Clearing Corporation may close out such open positions on the F&O Clearing Member's behalf or take such other measures required to comply with the clearing/exposure limits including withdrawal of trading and/or clearing facility.

## **5. SETTLEMENT OF FUTURES CONTRACTS**

### **5.1 Daily Mark to Market Settlement for Futures Contracts**

5.1.1 All open positions whether long or short of a F&O Clearing Member in Futures Contracts shall be deemed to have been closed out at the daily settlement price, and such member shall be liable to pay to, or entitled to collect from the Clearing Corporation any loss or profit, as the case may be, represented by the difference between the price at which the Futures Contract was bought or sold, or the settlement price of the previous trading day and the daily settlement price of the transaction at the end of the trading day, as the case may be.

5.1.2 After making such settlement with the Clearing Corporation, such member shall be deemed long or short, such Futures Contract, as the case may be, at the daily settlement price. The daily settlement obligation shall be paid only in cash.

### **5.2 Daily Settlement Price**

Daily settlement price shall be the closing price of the Futures Contracts for the trading day or such other price as may be decided by the relevant authority from time to time.

### **5.3 Advance call for daily mark to mark settlement**

If the market conditions or price fluctuations are such that the relevant authority deems it necessary, it may call upon the F&O Clearing Members which in its opinion are affected, to deposit with the Clearing Corporation by such time as specified by the relevant authority, the amount of funds that it estimates will be needed to meet such settlements as may be necessary.

### **5.4 Settlement of Futures Contracts which are closed out**

Futures Contracts which are closed out by offsetting positions shall be settled as per the procedure prescribed by the relevant authority from time to time.

### **5.5 Final Settlement**

All open positions of F&O Clearing Members in the Futures Contracts at the close of trading hours on the last trading day shall be settled as per the procedure specified by the relevant authority from time to time.

On completion of final settlement, open positions in such futures contracts shall ipso facto cease to exist.

**5.6 Final Settlement Price**

The Final Settlement Price shall be the closing price of the underlying security on the last trading day of the contract or such other price as may be specified by the relevant authority from time to time.

**5.7 Clearing Forms**

All Clearing Forms shall be as specified in the relative regulation or in such other form or forms as the relevant authority may from time to time prescribe in addition thereto or in modification or substitution thereof.

**5.8 Daily and Final Settlement Obligations Statements**

Clearing Corporation shall generate and provide to each F&O Clearing Member, Daily and Final Settlement Obligations Statements pertaining to transactions in different kinds of Futures Contracts.

**5.9 Mode Of Payment**

All F&O Clearing Members shall, on the designated pay-in day, have clear balance of funds in their clearing account to the extent of their funds obligation; Provided however the relevant authority may specify different mode of payment of funds for all or any of the F&O Clearing Members.

**5.10 Receipt Of Funds**

The Clearing Bank shall credit the clearing accounts of the F&O Clearing Members who are due to receive funds as per the instructions of the Clearing Corporation. All funds due to a F&O Clearing Member shall normally be credited to his account unless (a) the F&O Clearing Member does not perform his obligations to the Clearing Corporation or (b) it is otherwise ordered by the relevant authority;

Provided however the relevant authority may specify different mode of funds credit for all or any of the F&O Clearing Members.

## **5A. SETTLEMENT OF OPTION CONTRACTS**

### **5A.1 Daily Premium Settlement for Option contracts**

F&O Clearing Members with premium payable positions are obliged to effect pay-in to Clearing Corporation of the premium value at which the option contracts were purchased, towards settlement. F&O Clearing Members with premium receivable positions are entitled to receive the premium value at which the option contracts were sold, towards settlement, from Clearing Corporation.

- (a) Mode of premium settlement: The daily premium settlement obligation shall be paid in cash or such other form as may be specified by the relevant authority.
- (b) Style of premium settlement: The style of premium settlement may be premium style or future style or such other style as may be specified by the relevant authority from time to time. Clearing Corporation will specify the style of premium settlement for all option contracts that are to be cleared and settled. Clearing Corporation will, from time to time, specify the method for premium settlement for one or more styles of premium settlement.
- (c) Method of premium settlement: The relevant authority will from time to time specify the method of premium settlement, in accordance with the specified style of premium settlement. Clearing Corporation will arrive at the premium settlement amount payable or receivable by the respective Clearing Members at the end of each trading day or such other time, as may be specified by the relevant authority from time to time, for all option contracts admitted, in accordance with the method of premium settlement, and communicate the same to the Clearing Members. Accordingly, such Clearing Members will pay or receive such premium settlement amount towards premium settlement to or from Clearing Corporation.
- (d) Time of premium settlement: The relevant authority will specify from time to time the day and time when Premium settlement will take place.

### **5A.2 Exercise**

#### **(a) Type of Exercise**

Type of exercise for an option contract may be Voluntary or Automatic or such other type as may be specified by the relevant authority from time to time.

**1. Voluntary Exercise**

Voluntary exercise is the exercise of option contract by a Clearing Member, at his volition, subject to the Rules, Bye-laws and Regulations.

**2. Automatic Exercise**

Automatic exercise is the exercise of all in-the-money strike price option contracts, which are automatically deemed to be irrevocably exercised, on the Expiration date, subject to the Rules, Bye-laws and Regulations.

Notwithstanding the foregoing, if a Clearing Member desires not to exercise an in-the-money strike price option contract, it shall be the responsibility of such Clearing Member to give appropriate instructions in accordance with Regulation 5A.2(c).

Exercise of an option contract at a strike price other than in-the-money strike price shall be at the discretion of the relevant authority and subject to the requirements as may be specified by the relevant authority from time to time.

**(b) Exercise Mechanisms**

Exercise mechanism may be Interim or Final or such other mechanism as may be specified by the relevant authority from time to time.

**1. Interim Exercise**

Interim Exercise is the exercise of an option contract at anytime prior to expiration day or such other day and/ or time as may be specified by the relevant authority from time to time. Interim exercise is voluntary. Settlement of such contracts shall be in accordance with the provisions specified by the relevant authority for Exercise Settlement in Regulation 5A4.1.

**2. Final Exercise**

Final Exercise is the exercise of an option contract on or before expiration time on expiration day or such other day and/ or time as may be specified by the relevant authority from time to time. Final exercise may be automatic or voluntary.

Settlement of such contracts shall be in accordance with the provisions specified by the relevant authority for Exercise Settlement in Regulation 5A4.1.

**(c) Exercise procedure**

The procedure for exercise of an option contract by a Clearing Member shall be as specified hereinafter or such other procedure as may be specified by the relevant authority from time to time:

**1. Notice of exercise to Clearing Corporation**

The relevant authority may specify from time to time the provisions regarding exercise of option contracts including :

- (a) type of members who may exercise
- (b) facility/ system for tendering notice of exercise
- (c) day/ s when exercise notice may be submitted
- (d) minimum lot size of option contracts which may be exercised
- (e) time period within which exercise notice may be submitted
- (f) maximum number of option contracts which may be exercised on a day or within a period, for a member or for the market
- (g) strike price (i.e. in-the-money and/or at-the-money and/or out-of-the-money) at which the option contract may be exercised
- (h) such other conditions as it deems fit

Notice for exercise shall be deemed to be on long positions in an option contract at the close of trading hours on the day the notice of exercise has been tendered, or such other day/ time as may be specified by the relevant authority from time to time.

No Clearing Member shall revoke or modify any exercise notice so submitted except as provided under the Rules, Bye-laws and Regulations.

**2. Acceptance of Exercise notice by Clearing Corporation**

An exercise notice which has been tendered in accordance with the provisions as detailed in Regulation 5A.2(c)1 may be considered for acceptance by the relevant authority.

Such exercise notices received by the relevant authority shall be declared as valid or invalid after processing, at the close of trading hours on the day on which the exercise notice has been tendered, or on such other day or time, as may be specified by the relevant authority from time to time. All valid exercise notices will be accepted by the relevant authority and invalid exercise notices shall stand automatically rejected by the relevant authority.

Notwithstanding the foregoing, the relevant authority may, in the interest of market, declare an exercise notice as invalid where:

2.1 the entity who has tendered a notice for exercise has no open long positions in that contract, at the time when such notice is processed by the relevant authority.

2.2 any other reason.

### **3. Revocation of an exercise notice**

Unless permitted otherwise by the relevant authority, all valid exercise notices shall be irrevocable.

### **4. Restrictions on Exercise**

The relevant authority shall have an authority to impose such restrictions on exercise in any option contract as it may deem necessary in the interest of maintaining a fair and orderly market in the option contract or in the underlying securities or otherwise may deem advisable in the public interest or for the protection of investors or any other reason as the relevant authority may deem fit. Any exercise in contravention of such restriction shall be automatically invalid and not enforceable.

## **5A.3 Assignment**

### **(a) Assignment methods**

Assignment methods may be Proportional or Random or such other methods as may be specified by the relevant authority from time to time.

#### **1. Proportional Assignment**

Proportional Assignment is an allocation of exercised option contracts, proportionally, in market lots, as specified for the relevant option contract, to one or more than one short positions in the option contract with the same series, in accordance with the procedure as may be specified by the relevant authority from time to time.

#### **2. Random Assignment**

Random Assignment is an allocation of exercised option contracts, randomly, in market lots, as specified for the relevant option contract, to one or more than one short position, in the option contract with the same series, in accordance with the procedure as may be specified by the relevant authority from time to time.

### **(b) Assignment procedure**

The relevant authority may specify the assignment procedure, including day and/ or time when assignment will take place.

Exercise notices accepted by Clearing Corporation as valid will be assigned in accordance with the Assignment procedure, to short

positions in the option contracts, with the same series, to the clients of Clearing Members or Trading Members or clients of Trading Members, for fulfillment of obligations. Such short positions, to which the exercised option contracts are assigned, shall be termed as assigned option contracts for the purpose of settlement. The assigned Member shall be liable to fulfil his obligation in accordance with the Exercise settlement procedure specified for the option contract and the Rules, Bye-laws and Regulations.

#### **5A.4 Exercise Settlement**

Exercise settlement may be Interim or Final. The Relevant Authority may specify from time to time the procedure, mode, method, days, time etc. for Interim Exercise settlement and Final Exercise settlement.

##### **5A4.1 Exercise Settlement**

The Relevant Authority may specify the exercise type and mechanism of settlement from time to time.

**5A4.1.1 Mode of settlement:** Mode of settlement may be either cash settled or by creation of obligations in underlying segment or such other mode as may be specified by the Relevant Authority from time to time. Settlement by creation of obligations in underlying segment may be either cash based or delivery based.

##### **5A4.1.2 Method of settlement :**

###### **4.1.2.1 Cash settlement:**

4.1.2.1.1 An exercised option contract and the short position, to which such exercised option contract has been assigned, shall be settled at the exercise settlement price or such other price, as may be specified by the Relevant Authority from time to time.

4.1.2.1.2 Clearing Member, who has been assigned the option contract, shall be liable to pay to or entitled to receive from Clearing Corporation the exercise settlement value for each unit of the option contract, as the case may be, subject to the Rules, Byelaws and Regulations.

4.1.2.1.3 Clearing Member, who has exercised the option contract, shall be entitled to receive from, or liable to pay to, Clearing Corporation the exercise settlement value for each unit of the option contract, as the case may be, subject to the Rules, Byelaws and Regulations.

**4.1.2.2 Settlement by Creation of Obligation in the underlying security and underlying segment -**

Clearing Corporation shall, at its discretion, be entitled to create obligations in the underlying security in the relevant underlying segment, in respect of both clearing members, who have exercised option contract and to whom such exercised option contracts have been assigned.

An option contract, which has been exercised and the short position to which such exercised option contract has been assigned, shall be settled by the method of creating obligations in an equivalent number of units of the underlying security, in the relevant underlying segment, conveyed by the option contract, at the strike price of the option contract or such other method as may be specified by the Relevant Authority from time to time.

**A. Delivery Based:**

- (1) Obligations in an equivalent number of units of the underlying security, conveyed by an exercised option contract, shall be created, in accordance with the option type and series, at the strike price, on or after the day of exercise, in the relevant underlying segment of Clearing Corporation. The Relevant Authority may specify from time to time the day and time for creation of obligations in the underlying security for valid exercised option contracts.
- (2) Obligations in an equivalent number of units of the underlying security, conveyed by an assigned option contract, shall be created, in accordance with the option type and series, at the strike price, on or after the day of exercise, in the relevant underlying segment of Clearing Corporation. The Relevant Authority may specify from time to time the day and time for creation of obligations in the underlying security for valid assigned option contracts.
- (3) The Clearing Member who has exercised or has been assigned, as the case may be, the option contract, shall be liable to fulfill the delivery or payment obligations, so created, as the case may be, to Clearing Corporation. On fulfillment of such obligation, he shall be entitled to receive funds or underlying securities, as the case may be, from Clearing Corporation, subject to and in accordance with the Rules, Byelaws and Regulations of the underlying segment of Clearing Corporation.
- (4) Obligations, in relation to an option contract, shall be deemed to have been settled, in accordance with the Rules, Bye-laws and

Regulations of F&O Segment, ipso facto, upon creation of obligations in the relevant underlying security in the relevant underlying segment of Clearing Corporation; Provided however if a Clearing Member fails to meet his obligations so created in the underlying Segment, the Settlement Fund of the Futures & Options Segment may be utilised to meet such obligations in accordance with the Rules, Byelaws and Regulations.

- (5) Obligations created in the relevant underlying segment of Clearing Corporation, pursuant to the exercise and assignment of an option contract, shall be settled, as per the Rules, Bye-laws and Regulations of such underlying segment of Clearing Corporation.

**B. Cash Based:**

- (1) An exercised option contract and assigned option contract shall be settled by the method of creating obligations in the relevant underlying segment, conveyed by the option contract, on or after the day of exercise. The Relevant Authority may specify from time to time the day and time for creation of obligations in the underlying security for valid exercised option contracts.
- (2) Clearing Member, who has been assigned the option contract, shall be liable to pay to or entitled to receive from Clearing Corporation the exercise settlement value for each unit of the option contract, as the case may be, subject to the Rules, Byelaws and Regulations.
- (3) Clearing Member, who has exercised the option contract, shall be entitled to receive from or liable to pay to Clearing Corporation the exercise settlement value for each unit of the option contract, as the case may be, subject to the Rules, Byelaws and Regulations.
- (4) Obligations created on behalf of a Clearing member in the relevant underlying segment of Clearing Corporation, pursuant to the exercise and assignment of an option contract, shall be settled, as per the Rules, Bye-laws and Regulations of such underlying segment of Clearing Corporation.
- (5) Obligations, in relation to an option contract, shall be deemed to have been settled, in accordance with the Rules, Bye-laws and Regulations of F&O Segment, ipso facto, upon creation of obligations in the relevant underlying security in the relevant underlying segment of Clearing Corporation; Provided however if a Clearing Member fails to meet his obligations so created in the underlying Segment, the Settlement Fund of the Futures & Options Segment may be utilised to meet such obligations in accordance with the Rules, Byelaws and Regulations.

**5A4.1.3 Day and Time of Settlement:**

The Relevant Authority may specify from time to time the day and time when the settlement shall take place.

**5A.5 Clearing Forms**

All Clearing Forms shall be as specified in the relative regulation or in such other form or forms as the Relevant Authority may from time to time prescribe in addition thereto or in modification or substitution thereof.

**5A.6 Settlement Obligations Statements**

Clearing Corporation may facilitate download of relevant data to Clearing Members and Trading Members to enable them to generate Premium Settlement, Other Settlement Obligations Statements pertaining to transactions in different kinds of option contracts.

**5A.7 Mode of Payment**

All F& O Clearing Members shall, on the designated pay-in-day, have clear balance of funds in their clearing account to the extent of their funds obligation; Provided however the Relevant Authority may specify different mode of payment of funds for all or any of the F&O Clearing Members.

**5A.8 Receipt of Funds**

The Clearing Bank shall credit the clearing accounts of the F&O Clearing Members who are due to receive funds as per the instructions of the Clearing Corporation. All funds due to a F&O Clearing Member shall normally be credited to his account unless (a) the F&O Clearing Member does not perform his obligations to the Clearing Corporation or (b) it is otherwise ordered by the Relevant Authority;

Provided however the Relevant Authority may specify different mode of funds credit for all or any of the F&O Clearing Members.

## **6. CLOSING OUT**

### **6.1 Transfer of open positions and closing-out when effected**

Upon the failure of a F&O Clearing Member to comply with any of the provisions relating to margins, clearing/exposure limits, daily mark to market settlement and final settlement, failure to fulfil the terms and conditions subject to which the transactions in Derivatives Contracts have been made or for such other reasons as the relevant authority may specify from time to time, the relevant authority may:

- (a) transfer all or any of the open positions of clients or such other open positions of the defaulting clearing member as may be decided from time to time to any other F&O Clearing Member who agrees to accept such transfer subject to such terms and conditions as may be specified by the relevant authority from time to time and / or
- (b) close-out all or any of the open positions by buying-in or selling-out against the defaulting F&O Clearing Member.

### **6.2 Closing-out in specific cases**

Without prejudice to the generality of the provision contained as above closing-out may be effected in cases specified in the relative Regulations or in such other cases as the relevant authority may from time to time specify in addition thereto or in modification thereof.

### **6.3 Clearing Corporation Entitled To Close- Out Without Notice**

In respect of Derivatives Contracts settled through the Clearing Corporation, the Clearing Corporation shall be entitled to closing out against the party in default. In such cases no notice of closing-out shall be given to the F&O Clearing Member against whom the closing-out is to be effected.

Without prejudice to the generality of the above provision, closing-out without notice may be effected in cases specified in the relative Regulation or in such other cases as the relevant authority may from time to time specify in addition thereto or in modification or substitution thereof.

### **6.4 Closing-Out Contracts With Defaulter F&O Clearing Member**

If a F&O Clearing Member is declared a defaulter the Clearing Corporation shall determine all outstanding obligations by closing-out all open positions against him in accordance with the Bye Laws and Regulations relating to default.

### **6.5 Closing-Out Contracts With Deceased F&O Clearing Member**

On the death of a F&O Clearing Member having outstanding obligations , the relevant authority may at its discretion give permission to his heirs or legal representatives to settle such outstanding obligations according to the terms

thereof. In the event of such permission not being applied for or granted, the Clearing Corporation shall forthwith determine all outstanding obligations by closing out against the deceased member. The loss, if any, on such closing-out shall be claimed from the heirs or legal representatives of the deceased member and the profit, if any, shall be paid to them by the Clearing Corporation after obtaining approval of the relevant authority. If the heirs or legal representatives of the deceased member fail to pay the amount claimed from them it shall be as if such deceased member has been declared a defaulter and in that event the Bye Laws and Regulations relating to default shall apply.

### **6.6 Closing-Out How Effected**

Closing-out shall be effected against a F&O Clearing Member by the Clearing Corporation in any of the following manner:

- (a) by buying-in or selling-out against the F&O Clearing Member through an auction initiated by the Clearing Corporation;
- (b) by declaring a closing-out at such prices as may be decided by the relevant authority;
- (c) by buying-in or selling-out against the F&O Clearing Member by placing order in the specified exchange;
- (d) in any other manner as the relevant authority may decide from time to time.

### **6.7 Bids And Offers**

Unless permitted otherwise by the relevant authority, F&O Clearing Members other than those against whom the closing-out is effected may make a bid or offer during such closing-out. The relevant authority shall at its discretion refuse any bid or offer given.

### **6.8 Closing-Out Clearing Member's Responsibility**

Save as otherwise provided the F&O Clearing Member at whose instance or on whose behalf the buying-in or selling-out is effected by the Clearing Corporation for the purpose of closing-out shall be responsible for the deal made and no liability or responsibility shall attach to the Clearing Corporation or its employees for any deal made in pursuance of such closing-out.

### **6.9 Postponement By The Relevant Authority**

The relevant authority may defer closing-out in any particular case if in its opinion a fair market to close-out is not available or in such other circumstances as it may specify from time to time but no such deferment shall relieve the party in default of any resulting damages or free the intermediate parties of their liabilities.

### **6.10 Suspension Or Postponement Of Closing-Out**

The relevant authority may suspend or postpone buying-in or selling-out in respect of any derivatives contract and from time to time extend or postpone the period of

such extension or postponement when circumstances appear in its view to make such suspension or postponement desirable in the general interest.

### **6.11 Closing-Out Against Defaulter**

When closing-out is effected as provided above and the F&O Clearing Member concerned is declared a defaulter the difference arising from closing-out shall be recovered from the said member or distributed in accordance with the Bye Laws and Regulations relating to default.

### **6.12 Charges For Closing-Out**

When closing-out is effected on the advice of the Clearing Corporation the F&O Clearing Member against whom the closing-out takes place shall pay to the Clearing Corporation such charges as the relevant authority may from time to time prescribe.

### **6.13 Loss Arising From Closing-Out**

When closing-out is effected on the advice of the Clearing Corporation on account of a F&O Clearing Member failing to fulfil any of his obligations (including the margin obligations) the resulting loss shall accrue to such member and shall be paid by him forthwith to the Clearing Corporation.

### **6.14 Profit Arising From Closing-Out**

When closing-out is effected on the advice of the Clearing Corporation on account of a F&O Clearing Member failing to fulfil any of his obligations (including the margin obligations) any profit arising therefrom shall be credited to the account of the Settlement Fund or such other funds as may be set up by the relevant authority from time to time to be held by the Clearing Corporation such purposes as may be specified by the relevant authority.

### **6.15 Default If Closing-Out Loss And Damage Not Paid**

If any F&O Clearing Member against whom a deal is closed-out under the provisions of these Regulations fails to make payment of the loss arising out of the closing-out and of the damages if any within such time as may be stipulated by the relevant authority from time to time, he shall be declared a defaulter.

## **7. CLEARING BANK**

### **7.1 Clearing Corporation To Regulate**

The relevant authority shall specify from time to time the processes, procedures, and operations that every F&O Clearing Member shall be required to follow for the purpose of funds transactions through their clearing account with the Clearing Bank(s).

### **7.2 Functions Of Clearing Bank**

The Clearing Corporation shall appoint Clearing Bank(s) for the purpose funds settlement, for the collection of margin money for all transactions entered into through the Clearing Corporation and any other funds movement between F&O Clearing Members and the Clearing Corporation and between F&O Clearing Members inter se.

### **7.3 F&O Clearing Members To Have Account With The Clearing Bank**

Every F&O Clearing Member of the Clearing Corporation shall have clearing account(s) with designated Clearing Bank branch(es). F&O Clearing Members shall operate the clearing account(s) only for the purpose of settlement of deals entered through the Clearing Corporation, for the payment of margin money and for any other purpose as may be specified by the relevant authority from time to time. The clearing accounts may be for any or all of the segments as may be specified by the relevant authority. The F&O Clearing Member shall not operate the clearing account(s) for any other purpose.

### **7.4 Clearing Bank To Act As Per The Instructions Of The Clearing Corporation**

The Clearing Corporation shall instruct the Clearing Bank as to the debits and credits to be carried out for the funds settlement between F&O Clearing Members. The Clearing Bank shall act as per the instructions received from the Clearing Corporation for the funds movement. Instructions of the Clearing Corporation as to debits and credits to a F&O Clearing Member's accounts shall be deemed to be confirmed orders by a F&O Clearing Member to debit his account and/or credit his account funds as specified in the instruction.

### **7.5 Clearing Bank To Inform Clearing Corporation Of Default In Funds Settlement**

If there is any funds default arising out of the instructions received from the Clearing Corporation, the Clearing Bank shall inform the Clearing Corporation immediately.

**7.6 Members To Authorize Clearing Bank**

F&O Clearing Members shall authorise the Clearing Bank to access their clearing account for debiting and crediting their accounts as per instructions received from the Clearing Corporation.

**7.7 Clearing Account(s) of Clearing Corporation in the Clearing Bank**

Unless otherwise specified in respect of any deals as may be specified by the relevant authority, no clearing member or any person claiming through him shall have or be deemed to have any right, title or interest in any monies in the Clearing Account or other account/(s), as the relevant authority may from time to time prescribe, of the Clearing Corporation with the Clearing Bank.

The relevant authority may specify from time to time the deals in respect of which all sums of monies paid into the Clearing Account or other account/(s), as the relevant authority may from time to time prescribe, of the Clearing Corporation on account of any F&O Clearing Member entitled thereto, shall be held by the Clearing Corporation as agents and in trust for such Clearing Member. In such cases, the making of such payment or credit entry shall be deemed and taken to be a payment or credit to such clearing member.

**7.8 Clearing Number And Clearing Forms**

A Clearing Member shall be allotted a Clearing Number which must appear on all forms used by the clearing member connected with the operation of the Clearing Corporation. The Clearing Forms and Formats to be used by the F&O Clearing Members shall be as specified by the Clearing Corporation and unless otherwise permitted no other form or format shall be used.

**7.9 Signing Of Clearing Forms**

All Clearing Forms shall be signed by the F&O Clearing Member or his authorised signatories.

**7.10 Specimen Signatures**

A F&O Clearing Member shall file with the Clearing Corporation specimens of his own signature and of the signatures of his authorised representatives. The specimen signature card shall be signed by the F&O Clearing Member and his Authorised Representatives in the presence of an officer of the Clearing Corporation.

## **8. RECORDS, ANNUAL ACCOUNTS & AUDIT**

### **8.1 Records**

- 8.1.1 Every F&O Clearing Member shall comply with all relevant statutory acts, including Securities Contracts (Regulation) Act, 1956 and Rules thereunder of 1957, and Securities Exchange Board of India Act, 1992 and Rules, Regulations and guidelines thereunder, and the requirements of and under any notifications, directives and guidelines issued by the Central Government and any statutory body or local authority or any body or authority acting under the authority or direction of the Central Government relating to maintenance of accounts and records.
- 8.1.2 In additions to the requirements as per regulation above, every F&O Clearing Member shall comply with the following requirements and such other requirements as the Clearing Corporation may from time to time notify on this behalf relating to books of accounts, records and documents in respect of his membership to the relevant Clearing Segment of the Clearing Corporation
- 8.1.3 Every F&O Clearing Member of the Clearing Corporation shall maintain the following records relating to its business for a period of five years. In case of dispute, the relevant documents/records shall be maintained for a period of five years after the final settlement or adjudication of the dispute.
- (a) Statements of obligations received from the Clearing Corporation.
  - (b) Record of all statements received from the settling agencies and record of all correspondence with them.
  - (c) Copies of all instructions obtained in writing from constituents.
  - (d) Records in respect of monies borrowed and loaned including monies received.
  - (e) Records in respect of clearing charges collected separately from constituents.
  - (f) A register of transactions containing the details pertaining, inter alia, to all sales / purchase transactions entered into, the parties to such transactions, date and time of execution of such transactions, the price at which the derivatives contracts were bought/ sold, name of constituents and the clearing charges if any, charged by the clearing member.
- 8.1.4 Every F&O Clearing Member shall keep such records and books of accounts, as may be necessary, to distinguish client information from own information including details of transactions, margins and settlement information.

8.1.5 Every F&O Clearing Member shall keep such books of accounts, as will be necessary, to show and distinguish, in connection with his business as a Clearing Member:

- (a) The moneys received from or on account of and moneys paid to or on account of each of his clients and,
- (b) The moneys received and the moneys paid on clearing member's own account.
- (c) It shall be compulsory for all F&O Clearing Members to keep the money of the clients in a separate account and their own money in a separate account. No payment for transaction in which the clearing member is taking a position as a principal will be allowed to be made from the client's account.

8.1.6 The transfer from client's account to Clearing Member's account shall be allowed under circumstances provided herein in the relative Regulations.

(a) ***Obligation To Pay Money Into Clients Account***

Every F&O Clearing Member who holds or receives money on account of a client shall forthwith pay such money to current or deposit account at bank to be kept in the name of the member in the title of which the word "Clients" shall appear (hereinafter referred to as "Clients Account"). A F&O Clearing Member may keep one consolidated clients account for all the clients or accounts in the name of each client, as he thinks fit; provided that when a Clearing Member receives a cheque or draft representing in part money belonging to the client and in part money due to the Clearing Member, he shall pay the whole of such cheque or draft into the clients account and effect subsequent transfer as laid down in the relative Regulation herein.

(b) ***Moneys To Be Paid Into Clients Account***

No money shall be paid into clients account other than :

- (i) money held or received on account of clients
- (ii) such moneys belonging to the F&O Clearing Member as may be necessary for the purpose of opening or maintaining the account;
- (iii) money for replacement of any sum which may by mistake or accident have been drawn from the account
- (iv) a cheque or draft received by the F&O Clearing Member representing in part money belonging to the client and in part money due to the Clearing Member.

(c) ***Moneys To Be Withdrawn From Clients Account***

No money shall be drawn from clients account other than :

- (i) money properly required for payment to or on behalf of clients for or towards payment of a debt due to the F&O Clearing Member from clients or money drawn on client's authority, or

money in respect of which there is a liability of clients to the F&O Clearing Member, provided that money so drawn shall not in any case exceed the total of the money so held for the time being for each such client;

- (ii) such money belonging to the F&O Clearing Member as may have been paid into the client account as mentioned in regulation above.
- (iii) money which may by mistake or accident have been paid into such account.

(d) **Right To Lien, Set-Off Not Affected**

Nothing in this Section shall deprive a F&O Clearing Member of any recourse or right, whether by way of lien, set-off, counter-claim charge(s) or otherwise against moneys standing to the credit of clients account.

## 8.2 Record Maintenance

- 8.2.1 Every F&O Clearing Member shall maintain permanently copies of agreements executed with each of its constituent in accordance with the Clearing Corporation requirements.
- 8.2.2 Every F&O Clearing Member shall maintain permanently copies of agreements executed with each of the settling agencies or banks.
- 8.2.3 Every F&O Clearing Member shall maintain originals of all communications received and copies of all communications sent by such clearing member (including inter-office memo and communications ) relating to its business as such.
- 8.2.4 Every F&O Clearing Member shall maintain all guarantees of accounts and all powers of attorney and other evidence of the granting of any discretionary authority given in respect of any account and copies of resolutions empowering an agent to act on behalf of a Clearing Member.
- 8.2.5 Every F&O Clearing Member shall maintain all written agreements (or copies thereof) entered into by that Clearing Member relating to its business as such, including agreements with respect to any account.
- 8.2.6 Every F&O Clearing Member shall preserve for a period of not less than five years after the closing of any constituent's account any records which relate to the terms and conditions with respect to the opening and maintenance of such account, date of entering into agreement with the constituent, date of modification thereof, date of termination and representatives of such constituent who signed in each case. In case of dispute, the relevant documents/records shall be maintained for a period of five years after the final settlement or adjudication of the dispute.

- 8.2.7 A F&O Clearing Member shall intimate to the Clearing Corporation the place where these records are kept and available for audit/inspection.
- 8.2.8 The above requirements relating to maintenance of records shall apply not only to records of the F&O Clearing Member's principal office but also to those of any branch office and to any nominee company owned or controlled by a F&O Clearing Member for the purpose of conducting the business of the Clearing Member.
- 8.2.9 Each F&O Clearing Member shall keep and preserve a record of all written complaints of its constituents showing the reference number of constituent, date, constituent's name, particulars of the complaints, action taken by the clearing member, if the matter is referred to arbitration to the Clearing Corporation then the particulars thereof.
- 8.2.10 Every F&O Clearing Member shall maintain details of securities which are the property of a F&O Clearing Member showing with whom they are deposited and if held otherwise than by the member, whether they have been lodged as collateral security for loans or advances.
- 8.2.11 Notwithstanding anything contained hereinabove, every F&O Clearing Member shall preserve the originals of the documents both in electronic and physical form, copies of which have been taken by CBI, Police or any other enforcement agency during the course of their investigation till the trial is completed.

### **8.3 Annual Accounts And Audit**

- 8.3.1 Each F&O Clearing Member shall prepare annual accounts for each financial year ending on 31st March or such other date as advised to the Clearing Corporation.
- 8.3.2 The Assets and Liabilities of the F&O Clearing Member's business shall be brought into account in the balance sheet at such amounts and shall be classified and described therein in such manner that the balance sheet gives a true and fair view of the state of affairs of such business as at the date to which it is made up.
- 8.3.3 Each F&O Clearing Member shall furnish to the Clearing Corporation, its audited financial statement and such report shall be furnished not later than six months after the end of the clearing member's financial year, provided that when the Clearing Corporation is satisfied that circumstances warrant an extension of time is necessary to furnish such report, it may grant an extension of such time as it may deem fit.
- 8.3.4 Each F&O Clearing Member shall get the complete internal audit done on a half yearly basis by an independent qualified Chartered Accountant, Company Secretary or Cost and Management Accountant, who is in practice and does not have any conflict of interest and submit the report within such time and in such format as may be prescribed by the Clearing Corporation from time to time.

## **9. INSPECTION**

### **9.1 Inspection Authority**

- 9.1.1 The Clearing Corporation shall inspect books of accounts and any other document of a Member at least once in every year or such number of times as it deems fit. Where it appears to the Clearing Corporation so to do, it may appoint one or more persons as inspecting authority to undertake inspection of books of accounts, other records and documents of the F&O Clearing Members including for any of the purposes specified in the relative Regulation.
- 9.1.2 The Inspecting authority appointed by the Clearing Corporation may be either its own officials or outside professionals.
- 9.1.3 When the Clearing Corporation appoints outside professionals as an inspecting authority, it shall notify the F&O Clearing Member the names and addresses of the professionals or firms so appointed as an inspecting authority at the time of inspection.
- 9.1.4 When outside professionals are appointed as an inspecting authority in respect of a F&O Clearing Member and such professionals are already related in any other capacity with the F&O Clearing Member then such member shall forthwith inform the Clearing Corporation of such relationship.
- 9.1.5 Where after appointment of any outside professional as an inspecting authority in respect of a F&O Clearing Member, the Clearing Member or any of its associates engages the inspecting authority for its services in any other capacity, the inspecting authority shall not engage itself in such other professional capacity with the clearing member or any of its associates without prior consent of the Clearing Corporation.

### **9.2 Reasons For Inspection**

The Clearing Corporation may cause a F&O Clearing Member to be inspected for purposes which may include the following :

- (a) to ensure that the books of accounts and other books are being maintained in the manner required;
- (b) to ensure that the provisions of SEBI Act, Rules and Regulation thereunder are being complied with;
- (c) to ensure that provisions of the Securities Contracts (Regulation) Act and the Rules made thereunder are being complied with;
- (d) to ensure that various provisions of the Clearing Corporation Bye Laws, Rules and Regulations and any directions or instructions issued thereunder are being complied with;

- (e) to investigate into the complaints received from investors, other members of the Clearing Corporation or any other person on any matter having a bearing on the activities of the Clearing Member;
- (f) to investigate suo-moto, for any reason where circumstances so warrant an inspection into the affairs of the Clearing Member in public interest;
- (g) to examine whether any notices, circulars, instructions or orders issued by the Clearing Corporation time to time relating to trading and other activities of F&O Clearing Members are being complied with;
- (h) to comply with any of the directives issued in this behalf by any regulating authority including Government of India.

### **9.3 Notice**

- 9.3.1 Before undertaking any inspection as above the Clearing Corporation shall give a reasonable notice to the clearing member for that purpose.
- 9.3.2 Notwithstanding anything contained above, where the Clearing Corporation is of the opinion that no such notice should be given, it may direct in writing that the inspection of the affairs of the F&O Clearing Member be taken up without such notice.
- 9.3.3 Clearing Corporation officials or the inspecting authority who is directed by the Clearing Corporation to undertake the inspection, shall undertake the inspection and the F&O Clearing Member against whom an inspection is being carried out shall be bound to discharge his obligations as provided in the relative Regulation herein.

### **9.4 Obligations Of A F&O Clearing Member On Inspection**

- 9.4.1 It shall be the duty of every director, officer and employee of the F&O Clearing Member, who is being inspected, to produce to the inspecting authority such books, accounts and other documents in his custody or control or arrange to produce where such books, accounts and other documents when they are in any other person's custody or control and furnish him such statements and information within such time as the said inspection authority may require.
- 9.4.2 The F&O Clearing Member shall allow the inspecting authority to have reasonable access to the premises occupied by him or by any other person on his behalf and also extend reasonable facilities for examining any books, records, documents and computerised data in his possession or any other person and also provide copies of documents or other materials which in the opinion of the inspecting authority are relevant. Such copies or materials shall be retained by the inspecting authority as the property of the Clearing Corporation.
- 9.4.3 The inspecting authority, in the course of inspection shall be entitled to examine or record statements of any member, director, officer and

employee of the F&O Clearing Member or of any associate of such clearing member.

- 9.4.4 It shall be the duty of every director, officer and employee of the F&O Clearing Member or where an associate is examined, such associate to give to the inspecting authority all assistance in connection with the inspection which the Clearing Member may be reasonably expected to give.
- 9.4.5 The inspecting authority shall be entitled to examine the records relating to the F&O Clearing Member's financial affairs held with its bankers or any other agency which the inspecting authority may find it relevant.
- 9.4.6 The inspecting authority shall have access to accounts and other records relating to the F&O Clearing Member or such access as authorised by the Clearing Corporation to accounts and other records relating to any associate of the clearing member as are within the power of the clearing member to provide.

## **9.5 Submission Of Report**

- 9.5.1 The inspecting authority shall, as soon as possible submit an inspection report to the Clearing Corporation.
- 9.5.2 All documents, papers, returns or their copies submitted to the inspecting authority may be retained by it on behalf of the Clearing Corporation. It shall maintain complete confidentiality thereof and no disclosure of any information contained therein shall be made to any person, firm, company or authority unless required by any law for the time being in force and without approval of the Clearing Corporation in this regard.
- 9.5.3 The Clearing Corporation shall after consideration of the inspection report communicate the findings to the Clearing Member to give him an opportunity of being heard before any action is taken by the Clearing Corporation on the findings of the inspecting authority.
- 9.5.4 On receipt of the explanation, if any, from the Clearing Member the Clearing Corporation may call upon Clearing Member to take such measures as the Clearing Corporation may deem fit in public interest.
- 9.5.5 Notwithstanding anything contained as above, where the Clearing Corporation is of the opinion that no such hearing should be provided in certain circumstances, it may take action forthwith without giving an opportunity of being heard.

## **10. CODE OF CONDUCT FOR F&O CLEARING MEMBERS**

### **10.1 General Principles**

#### **10.1.1 *Professionalism***

A F&O Clearing Member in the conduct of his business, shall observe high standards of commercial honour of just and equitable principles of trade. A F&O Clearing Member shall have and employ effectively the resources and procedures which are needed for the proper performance of his business activities.

#### **10.1.2 *Adherence To Clearing Practices***

F&O Clearing Members shall adhere to the Rules, Regulations and Bye Laws of the Clearing Corporation and shall comply with such operational parameters, rulings, notices, guidelines and instructions of the relevant authority as may be applicable from time to time.

#### **10.1.3 *Honesty And Fairness***

In conducting his business activities, a F&O Clearing Member shall act honestly and fairly, in the best interests of his constituents.

### **10.2 Settlement Principles**

10.2.1 F&O Clearing Members shall ensure that the fiduciary and other obligations imposed on them and their staff by the various statutory acts, rules and regulations are complied with.

10.2.2 F&O Clearing Members shall ensure that employees are adequately trained in the practices of the relevant clearing segment in which they deal, clear and settle, are aware of their own, and their organization's responsibilities as well as the relevant statutory acts governing the Clearing Member, the Rules, Regulations and Bye Laws of the Clearing Corporation including any additions or amendments thereof.

10.2.3 When entering into transactions on behalf of constituents, the F&O Clearing Members shall ensure that they abide by the Code of Conduct and regulations as enumerated in the current chapter of these regulations.

10.2.4 No F&O Clearing Member or person associated with a F&O Clearing Member shall make improper use of constituents securities or funds.

10.2.5 When entering into or arranging transactions, F&O Clearing Members must ensure that at all times great care is taken not to misrepresent in any way the nature of transaction.

10.2.6 No F&O Clearing Member shall exercise any discretionary power in a client's account unless such client has given prior written authorisation to a stated individual or individuals and the account has been accepted by the Clearing Member, as evidenced in writing by the clearing member.

### **10.3 General Guidelines**

A F&O Clearing Member shall desist from the following practices while conducting business on the Clearing Corporation.

#### ***Shielding Or Assisting***

No F&O Clearing Member shall shield or assist or omit to report any Clearing Member whom he has known to have committed a breach or evasion of any Rules, Bye Laws or Regulations of the Clearing Corporation or of any resolution, order, notice or direction thereunder of the Governing Board or the Managing Director or of any committee or officer of the Clearing Corporation authorised in that behalf.

## **11. CONDUCT OF BUSINESS BY CLEARING MEMBERS**

### **11.1 Office Related Procedure**

- 11.1.1 Every F&O Clearing Member shall ensure that all persons acting on his behalf shall subscribe at all times to high standards of professional expertise and integrity.
- 11.1.2 Each F&O Clearing Member shall at all times maintain such infrastructure, staff, communication facilities and records so as to be able to service his constituents satisfactorily and as per the requirements enumerated in the Clearing Corporation Bye Laws, Rules and Regulations, or any other relevant act(s) in force for that time being.
- 11.1.3 Where the Clearing Corporation feels it necessary, in the public interest to do so, it may at its own instance or on a complaint from another F&O Clearing Member or client, seek explanation from the F&O Clearing Member regarding the level of service or professional conduct of the Clearing Member or any of his staff where such service or conduct has been found unsatisfactory or contrary to principles enumerated in the Clearing Corporation Bye Laws, Rules and Regulations, or notifications, directions or circulars issued thereunder.

### **11.2 Supervision**

#### **11.2.1 *Procedures to be followed***

- (a) Each F&O Clearing Member shall establish, maintain, and enforce procedures to supervise its business and to supervise the activities of its employees that are reasonably designed to achieve compliance with the Clearing Corporation Bye Laws, Rules and Regulations and any notifications, directions etc. issued thereunder as well as the relevant statutory acts.
- (b) The F&O Clearing Member shall maintain an internal record of the names of all persons who are designated as supervisory personnel and the dates for which such designation is or was effective. Such record shall be preserved by the F&O Clearing Member for a period of not less than three years.
- (c) Every F&O Clearing Member shall specifically authorise in writing person or persons, who may be authorised to transact on behalf of the clearing member and to do such acts which clearing member may wish to delegate to such person, and make available a copy of such power of attorney to the Clearing Corporation before such person transacts any business on the Clearing Corporation.
- (d) A F&O Clearing Member shall maintain such records and make available to inspection by any person authorised in this behalf by the Clearing Corporation, the information related to such Clearing

member's financial condition as specified by the Clearing Corporation for this purpose.

- (e) The F&O Clearing Member shall pay such fees, charges and other sum as the Clearing Corporation may notify from time to time, in such time and manner as required by the Clearing Corporation.
- (f) The F&O Clearing Member must inform the Clearing Corporation of any change in the status and constitution, operation, activities of the clearing member's entity.

#### 11.2.2 *Internal inspections*

Each F&O Clearing Member shall conduct a review, at least annually, of the business in which it engages, which shall be reasonably designed to assist in detecting and preventing violations of and achieving compliance with Bye Laws, Rules and Regulations.

#### 11.2.3 *Written Approval*

Each F&O Clearing Member shall establish procedures for the review and endorsement by an appropriate senior officer in writing, on an internal record, of all transactions and all correspondence of its employees pertaining to the solicitation of any transaction.

### **11.3 Relation With The Constituents**

- 11.3.1 When establishing a relationship with a new client, F&O Clearing Members must take reasonable steps to assess the background, genuineness, financial soundness of such person, and his objectives.
- 11.3.2 F&O Clearing Member shall make the constituent aware of the precise nature of the clearing member's liability for business to be conducted, including any limitations on that liability and the capacity in which the clearing member acts and the constituents' liability thereon.
- 11.3.3 The F&O Clearing Member shall provide extracts of relevant provisions governing the rights and obligations of constituents as constituents of F&O Clearing Members as specified in the Bye Laws, Rules and Regulations, relevant manuals, notifications, circulars any additions or amendments thereto etc. of the F&O Segment of the Clearing Corporation, or of any regulatory authority, to the extent it governs the relationship between F&O Clearing Members and constituents, to the constituents at no extra cost. The F&O Clearing Member shall also bring to the notice of his constituents, any indictments, penalties etc. imposed on him by the Clearing Corporation or any other regulatory authority.

### **11.4 Recommendations To The Constituents**

- 11.4.1 A F&O Clearing Member shall make adequate disclosures of relevant material information in its dealing with his constituents.

11.4.2 No F&O Clearing Member or person associated with the Clearing Member shall guarantee a constituent against a loss in any transactions effected by the clearing member with or for such constituent.

## **12. CLEARING AND OTHER FORMS**

### **12.1 Clearing Forms, Special Returns And Other Forms**

The clearing forms, special returns and other forms referred to in these Bye Laws and Regulations and not separately specified shall be in such other form or forms as the relevant authority may from time to time prescribe in addition thereto or in modification or substitution thereof.

### **12.2 Clearing Number And Clearing Forms**

A clearing member shall be allotted a Clearing Number which must appear on all forms used by the clearing member connected with the operation of the Clearing Corporation.

### **12.3 Signing of Clearing Forms**

All Clearing Forms shall be signed by the F&O Clearing Member or his clearing assistant.

### **12.4 False or Misleading Statements**

The relevant authority may fine, suspend or expel a F&O Clearing Member who makes any false or misleading statement in the Clearing Forms required to be submitted in conformity with these Regulations or any resolutions, orders, notices, directions and decisions of the relevant authority thereunder.