

THE SECURITIES CONTRACTS (REGULATION)
ACT, 1956

ACT NO. 42 OF 1956 AN ACT TO PREVENT UNDESIRABLE
TRANSACTIONS IN SECURITIES BY RE
GULATING THE BUSINESS

[4th September, 1956.]

BE it enacted by Parliament in the Seventh Year of the Republic
of India as follows:-

1.

Short title, extent and commencement.

1. Short title, extent and commencement. (1) This Act may be
called the Securities Contracts (Regulation) Act, 1956.

(2) It extends to the whole of India.

(3) It shall come into force on such date as the Central
Government may, by notification in the Official Gazette, appoint.

2.

Definitions.

2. Definitions. In this Act, unless the context otherwise
requires,-

(a) "contract" means a contract for or relating to the
purchase or sale of securities ;

(b) "Government security" means a security created and
issued, whether before or after the commencement of this
Act, by the Central Government or a State Government for
the purpose of raising a public loan and having one of
the forms specified in clause (2) of section 2 of the
Public Debt Act, 1944;

(c) "member" means a member of a recognised stock
exchange;

(d)"option in securities" means a contract for the purchase or sale of a right to buy or sell, or a right to buy and sell, securities. in future, and includes a teji, mandi, a teji mandi, a galli, a put, a call or a put and call in securities ;

(e)" prescribed " means prescribed by rules made under this Act ;

120th February, 1957, vide S.R.O. 528, dated 16th February, 1957, Gazette of, India, Extraordinary, 1957, Pt. II, Sec. 3, p. 549.

Extended to and brought into force in Dadra and Nagar Haveli (w.e.f. 1.7.1965) by reg. 6 of 1963, s. 2 & Sch. I.

Extended to the Union territory of Pondicherry by Act 26 of 1968, S. 3 and Schedule.

Extended to Goa, Daman and Diu by Reg. 11 of 1963, s. 3 & Sch.

Section 19 of the Act shall come into force in the area covered by the Ernakulam District of Kerala State w-e-f 10.5.1979: vide Notifn. No. S.O. 266 (E), dt. 10.5.1979, Gaz. of India, Exty., Pt. II, Sec. 3(ii), p. 500.

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(f)" recognised stock exchange" means a stock exchange which is for the time being recognised by the Central Government under section 4;

(g)" rules ", with reference to the rules relating in general to the constitution and management of a stock exchange, includes, in the case of a stock exchange which is an incorporated association, its memorandum and articles of association ;

(h) "securities" include-

(i) shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body

corporate;

(ii) Government securities;

(iia) such other instruments as may be declared by the central Government to be securities; and"]

(iii) rights or interests in securities;

(i)"spot delivery contract" means a contract which provides for the actual delivery of securities and the payment of a price therefor either on the same day as the date of the contract or on the next day, the actual period taken for the despatch of the securities or the remittance of money therefor through the post being excluded from the computation of the period aforesaid, if the parties to the contract do not reside in the same town or locality ;

(j)stock exchange " means any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.

RECOGNISED STOCK EXCHANGES

3.

Application for recognition of stock exchanges.

3.Application for recognition of stock exchanges. (1) Any stock exchange, which is desirous of being recognised for the purposes of this Act, may make an application in the prescribed manner to the Central Government.

(2) Every application under sub-section (1) shall contain such particulars as may be prescribed, and shall be accompanied by a copy of the bye-laws of the stock exchange for the regulation and control of contracts and also a copy of the rules relating in general to the constitution of the stock exchange, and in particular, to-

(a)the governing body of such stock exchange, its constitution and powers of management and the manner in which its business is to be transacted ;

(b)the powers and duties of the office bearers of the

stock exchange;

1 Subs. by Act 15 of 1992, s. 33 & Sch. (w.e.f. 21.2.92)

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(c) the admission into the stock exchange of various classes of members, the qualifications for membership, and the exclusion, suspension, expulsion and re-admission of members therefrom or thereinto;

(d) the procedure for the registration of partnerships as members of the stock exchange in cases where the rules provide for such membership; and the nomination and appointment of authorized representatives and clerks.

4.

Grant of recognition to stock exchanges.

4. Grant of recognition to stock exchanges. (1) If the Central Government is satisfied, after making such inquiry as may be necessary in this behalf and after obtaining such further information, if any, as it may require,-

(a) that the rules and bye-laws of a stock exchange applying for registration are in conformity with such conditions as may be prescribed with a view to ensure fair dealing and to protect investors ;

(b) that the stock exchange is willing to comply with any other conditions (including conditions as to the number of members) which the Central Government, after consultation with the governing body of the stock exchange and having regard to the area served by the stock exchange and its standing and the nature of the securities dealt with by it, may impose for the purpose of carrying out the objects of this Act ; and

(c) that it would be in the interest of the trade and also in the public interest to grant recognition to the stock exchange;

it may grant recognition to the stock exchange subject to the conditions imposed upon it as aforesaid and in such form as may be prescribed.

(2) The conditions which the Central Government may prescribe under clause (a) of subsection (1)' for the grant of recognition to the stock exchanges may include, among other matters, conditions relating to,-

(i) the qualifications for membership of stock exchanges;

(ii) the manner in which contracts shall be entered into and enforced as between members;

(iii) the representation of the Central Government on each of the stock exchanges by such number of persons not exceeding three as the Central Government may nominate in this behalf ; and

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(iv) the maintenance of accounts of members and their audit by chartered accountants whenever such audit is required by the Central Government.

(3) Every grant of recognition to a stock exchange under this section shall be published in the Gazette of India and also in the Official Gazette of the State in which the principal office of the stock exchange is situate, and such recognition shall have effect as from the date of its publication in the Gazette of India.

(4) No application for the grant of recognition shall be refused except after giving an opportunity to the stock exchange concerned to be heard in the matter ; and the reasons for such refusal shall be communicated to the stock exchange in writing.

(5) No rules of a recognised stock exchange relating to any of the matters specified in sub-section (2) of section 3 shall be amended except with the approval of the Central Government.

5.

Withdrawal of recognition.

5. Withdrawal of recognition. If the Central Government is of opinion that the recognition granted to a stock exchange under the provisions of this Act should, in the interest of the trade or in the public interest, be withdrawn, the Central Government may serve on the governing body of the stock exchange a written notice that the Central Government is considering the withdrawal of the recognition for the reasons stated in the notice, and after giving an opportunity to the governing body to be heard in the matter, the Central Government may withdraw, by notification in the Official Gazette, the recognition granted to the stock exchange:

Provided that no such withdrawal shall affect the validity of any contract entered into or made before the date of the notification, and the Central Government may, after consultation with the stock exchange, make such provision as it deems fit in the notification of withdrawal or in any subsequent notification similarly published for the due performance of any contracts outstanding on that date.

6.

Power of Central Government to call for periodical returns or direct inquiries to be made.

6. Power of Central Government to call for periodical returns or direct inquiries to be made. (1) Every recognised stock exchange shall furnish to the Securities and Exchange Board of India such periodical returns relating to its affairs as may be prescribed.

(2) Every recognised stock exchange and every member thereof shall maintain and preserve for such periods not exceeding five years such books of account, and other documents as the Central Government, after consultation with the stock exchange concerned, may prescribe in the interest of the trade or in the public interest, and

such books of account, and other documents shall be subject to inspection at all reasonable times by the Securities and Exchange Board of India

(3) Without prejudice to the provisions contained in sub-section (1) and (2), the [Securities and Exchange Board of India] if it is satisfied that it is in the interest of the trade or in the public interest so to do, may, by order in writing,-

(a) call upon a recognised stock exchange or any member thereof to furnish in writing such information or explanation relating to the affairs of the stock exchange or of the member in relation to the stock exchange or of Securities and Exchange Board of India may require; or

(b) appoint one or more persons to make an inquiry in the prescribed manner in relation to the affairs of the governing body of a stock exchange or the affair.,; of a of the members of the stock exchange in relation to t stock exchange and submit a report of the result of such inquiry to the [Securities and Exchange Board of India] within such time as may be specified in the order or, in the case of an inquiry in relation to the affairs of any of the members of a stock exchange, direct the governing body to take the inquiry and submit its report to the Securities and Exchange Board of India.

(4) Where an inquiry in relation to the affairs of a recognised stock exchange or the affairs of any of its members in relation to the stock exchange has been undertaken under sub-section (3),-

(a) every director, manager, secretary or other officer of such stock exchange ;

(b) every member of such stock exchange;

(c) if the member of the stock exchange is a firm, every

partner, manager, secretary or other officer of the firm
; and

(d) every other person or body of persons who has had dealings in the course of business with any of the persons mentioned in clauses (a), (b) and (c), whether directly or indirectly ;

shall be bound to produce before the authority making the inquiry all such books of account, and other documents in his custody or Power relating to or having a bearing on the subject-matter of such inquiry and also to furnish the authorities within such time as may be specified with any such statement or information relating thereto as may be required of him,

1 Subs. by Act 15 of 1992, s. 33 & Sch. (w.e.f. 21.2.1992)

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7.

Annual reports to be furnished to Central Government by stock exchanges.

7. Annual reports to be furnished to Central Government by stock exchanges. Every recognised stock exchange shall furnish the Central Government with a copy of the annual report, and such annual report shall contain such particulars as may be prescribed.

1[7A. Power of recognised stock exchange to make rules restricting voting rights, etc. (1) A recognised stock exchange may make rules or amend any rules made by it to provide for all or any of the following matters, namely:-

(a) the restriction of voting rights to members only in respect of any matter placed before the stock exchange at any

meeting;

(b) the regulation of voting rights in respect of any matter placed before the stock exchange at any meeting so that each member may be entitled to have one vote only, irrespective of his share of the paid-up equity capital of the stock exchange ;

(c) the restriction on the right of a member to appoint another person as his proxy to attend and vote at a meeting of the stock exchange ;

(d) such incidental, consequential and supplementary matters as may be necessary to give effect to any of the matters specified in clauses (a), (b) and (c).

(2) No rules of a recognised stock exchange made or amended in relation to any matter referred to in clauses (a) to (d) of sub-section (1) shall have effect until they have been approved by the Central Government and published by that Government in the Official Gazette and, in approving the rules so made or amended, the Central Government may make such modifications therein as it thinks fit, and on such publication, the rules as approved by the Central Government shall be deemed to have been validly made, notwithstanding anything to the contrary contained in the Companies Act, 1956.] (1 of 1956.)

8.

Power of Central Government to direct rules to be made or to make rules.

8. Power of Central Government to direct rules to be made or to make rules. (1) Where, after consultation with the governing bodies of stock exchanges generally or with the governing body of any stock exchange in particular, the Central Government is of opinion that it is necessary or expedient so to do, it may, by order in writing together with a statement of the reasons therefor, direct recognised stock exchanges generally or any recognised stock exchange in particular, as the case may be, to make any rules or to amend any rules already made in respect of all or any of the matters specified in sub-section (2) of section 3 within a period of six months from the date of the order.

Ins. by Act 49 of 1959, s. 2.

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(2) If any recognised stock exchange fails or neglects to comply with any order made under sub-section (1) within the period specified therein, the Central Government may make the rules for, or amend the rules made by, the recognised stock exchange, either in the form proposed in the order or with such modifications thereof as may be agreed to between the stock exchange and the Central Government.

(3) Where in pursuance of this section any rules have been made or amended, the rules so made or amended shall be published in the Gazette of India and also in the Official Gazette or Gazettes of the State or States in which the principal office or offices of the recognised stock exchange or exchanges is or are situate, and, on the publication thereof in the Gazette of India, the rules so made or amended shall, notwithstanding anything to the contrary contained in the Companies Act, 1956, (1 of 1956.) or in any other law for the time being in force, have effect as if they had been made or amended by the recognised stock exchange or stock exchanges, as the case may be.

9.

Power of recognised stock exchanges to make bye-laws.

9. Power of recognised stock exchanges to make bye-laws. (1)
Any recognised stock exchange may, subject to the previous approval of the Securities and Exchange Board of India regulation and control of contracts.-

(2) In particular, and without prejudice to the generality foregoing power, such bye-laws may provide for-

(a) the opening and closing of markets and the regulation of the hours of trade ;

(b) a clearing house for the periodical settlement of contracts and differences thereunder, the delivery of and payment

1 Subs. by Act 15 of 1992, s. 33 & Sch. (w.e.f. 21.2.1992).

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for securities, the passing on of delivery orders and the regulation and maintenance of such clearing house;

(c) the submission to the Securities and Exchange Board of India by the clearing house as soon as may be after each periodical settlement of all or any of the following particulars as that may from time to time, require, namely:

(i) the total number of each category of security carried over from one settlement period to another;

(ii) the total number of each category of security, contracts in respect of which have been squared up during the course of each settlement period ;

(iii) the total number of each category of security actually delivered at each clearing ;

(d) the publication by the clearing house of all or any of the particulars submitted to the [Securities and Exchange Board of India] under clause (c) subject to the directions, if any, issued by the Securities and Exchange Board of India. in this behalf;

(e) the regulation or prohibition of blank transfers ;

(f) the number and classes of contracts in respect of which settlements shall be made or differences paid through the clearing house;

(g)the regulation, or prohibition of budlas or carry-over facilities ;

(h)the fixing, altering or postponing of days for settlements;

(i)the determination and declaration ,of market rates, including the opening, closing, highest and lowest rates for securities ;

(j) the terms, conditions and incidents of contracts, including the prescription of margin requirements, if any, and conditions relating thereto, and the forms of contracts in writing.

(k)the regulation of the entering into, making, performance, rescission and termination, of contracts, including contracts between members or between a member and his constituent or between a member and a person who is not a member, and the consequences of default or insolvency on the part of a seller or buyer or intermediary, the consequences of a breach or omission by a seller or buyer, and the responsibility of members who are not parties to such contracts ;

1 Subs. by Act 15 of 1992, s. 33 & Sch. (w.e.f. 21.2.1992)

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(l)the regulation of taravani business including the placing of limitations thereon ;

(m)the listing of securities on the stock exchange, the inclusion of any security for the purpose of dealings and the suspension or withdrawal of any such securities, and the suspension or prohibition of trading in any. specified securities ;

(n)the method and procedure for the settlement of claims or disputes,. including settlement by arbitration ;

(o) the levy and recovery of fees, fines and penalties;

(p)the regulation of the course of business between parties to contracts in any capacity ;

(q) the fixing of a scale of brokerage and other charges;

(r) the making, comparing, settling and closing of bargains;

(s) the emergencies in trade which may arise, whether as a result of pool or syndicated operations or cornering or otherwise, and the exercise of powers in such emergencies, including the power to fix maximum and minimum prices for securities ;

(t) the regulation of dealings by members for their own account ;

(u) the separation of the functions of jobbers and brokers;

(v) the limitations on the volume of trade done by any individual member in exceptional circumstances;

(w) the obligation of members to supply such information or explanation and to produce such documents relating to the business as the governing body may require.

(3) The bye-laws made under this section may-

(a) specify the bye-laws the contravention of which shall make a contract entered into otherwise than in accordance with the bye-laws void under sub-section (1) of section 14;

(b) provide that the contravention of any of the bye-laws shall render the member concerned liable to one or more of the following punishments, namely:-

(i) fine ;

(ii) expulsion from membership;

(iii) suspension from membership for a specified period ;

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(4) Any bye-laws made under this section shall be subject to such conditions in regard to previous publication as may be prescribed

and when approved by the Securities and Exchange Board of India in the Gazette of India and in which the principal office of the recognised stock exchange is situate, and shall have effect as from the date of its publication in the Gazette of India:

Provided that if the Securities and Exchange Board of India Government is satisfied in any case that in the interest of the trade or in the public interest any bye-law should be made immediately, it may, by order in writing specifying the reasons therefor, dispense with the condition of previous publication.

10.

Power of Securities and Exchange Board of India to make or amend bye-laws of recognised stock exchanges.

10.Power of Securities and Exchange Board of India to make or amend bye-laws of recognised stock exchanges.(1) The Securities and Exchange Board of India may, either on a request in writing received by it in this behalf from the governing body of a recognised stock exchange or on its own motion, if it is satisfied after consultation with the governing body of the stock exchange that it is necessary or expedient so to do and after recording its reasons for so doing, make bye-laws for all or any of the matters specified in section 9 or amend any bye-laws made by such stock exchange under that section.

(2) Where in pursuance of this section any bye-laws have been made or amended, the bye-laws so made or amended shall be published in the Gazette of India and also in the Official Gazette of the State in which the principal office of the recognised stock exchange is situate, and on the publication thereof in the Gazette of India, the bye-laws so made or amended shall have effect as if they had been made or amended by the recognised stock exchange concerned.

(3)Notwithstanding anything contained in this section, where the governing body of a recognised stock exchange objects to any byelaws made or amended under this section by the [Securities and Exchange Board of India] on its own motion, it may, within six months of the publication thereof in the Gazette of India under sub-section (2), apply to the Government for revision thereof, and the Securities and

Exchange Board of India after giving an opportunity to the governing body of the stock exchange to be heard in the matter, revise the bye-laws so made or amended, and where any bye-laws so made or amended are revised as a result of any action taken under this sub-section, the bye-laws so revised shall be published and shall become effective as provided in sub-section (2).

1 Subs. by Act 15 of 1992, s. 33 & Sch. (w.e.f. 21.2.1992)

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(4) The making or the amendment or revision of any bye-laws under this section shall in all cases be subject to the condition of previous publication:

Provided that if the Securities and Exchange Board of India is satisfied in any case that in the interest of the trade or in the public interest any byelaws should be made, amended or revised immediately, it may, by order in writing specifying the reasons therefor, dispense with the condition of previous publication.

11.

Power of Central Government to supersede governing body of arecognised stock exchange.

11.Power of Central Government to supersede governing body of a recognised stock exchange. (1) Without prejudice to any other powers vested in the Central Government under this Act, where the Central Government is of opinion that the governing body of any recognised stock exchange should be superseded, then, notwithstanding anything contained in any other law for the time being in force, the C central Government may serve on the governing body a written notice that the Central Government is considering the supersession of the governing body for the reasons specified in the notice and after giving an opportunity to the governing body to be heard in the matter it may, by notification in the Official Gazette, declare the governing body of

such stock exchange to be superseded, and may appoint any person or persons to exercise and perform all the powers and duties of the governing body, and, where more persons than one are appointed, may appoint one of such persons to be the chairman and another to be the vice-chairman thereof.

(2) On the publication of a notification in the Official Gazette under sub-section (1), the following consequences shall ensue, namely:

(a) the members of the governing body which has been superseded shall, as from the date of the notification of supersession, cease to hold office as such members ;

(b) the person or persons appointed under sub-section (1) may exercise and perform all the powers and duties of the governing body which has been superseded ;

(c) all such property of the recognised stock exchange as the person or persons appointed under sub-section (1) may, by order in writing, specify in this behalf as being necessary for the purpose of enabling him or them to carry on the business of the stock exchange, shall vest in such person or persons.

(3) Notwithstanding anything to the contrary contained in any law or the rules or bye-laws of the recognised stock exchange the governing body of which is superseded under sub-section (1), the person or persons appointed under that sub-section shall hold office

1 Subs. by Act 15 of 1992, s. 33 & Sch. (w.e.f. 21.2.1992)

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for such period as may be specified in the notification published under that sub-section, and the Central Government may from time to time by like notification, vary such period.

(4) The Central Government may at any time before the determination of the period of office of any person or persons appointed under

this section call upon the recognised stock exchange to reconstitute the governing body in accordance with its rules and on such reconstitution all the property of the recognised stock exchange which

has. vested in, or was in the possession of, the person or persons appointed under subsection (1), shall re-vest or vest, as the case may be, in the governing body so reconstituted:

Provided that until a governing body is so re-constituted, the person or persons appointed under sub-section (1), shall continue to exercise and perform their powers and duties.

12.

Power to suspend business of recognised Stock exchanges.

12.Power to suspend business of recognised Stock exchanges. If in 'the opinion of the Central Government an emergency has arisen and

for the purpose of meeting the emergency the Central Government

considers it expedient so to do, it may, by notification in the Official Gazette, for reasons to be set out therein, direct a recognised stock exchange to suspend such of its business for, such period not exceeding Seven days and subject to such conditions as may

be specified In the notification, and, if, in the opinion of the, Central Government, the interest of the trade or the public interest requires 'that the period should be extended may, by like notification extend the said period from time to time:

Provided that where, the period of suspension is to be extended beyond the first period, no notification extending the period of suspension shall be issued unless the governing body of 'the 1[recognised stock exchanger has been given an opportunity of being heard in the matter.

CONTRACTS AND OPTIONS IN SECURITIES

13.

Contracts in notified areas illegal in certain circumstances.

13.Contracts in notified areas illegal in certain

circumstances.If the Central Government 'is satisfied, having regard to the nature or the volume of transactions in securities in any State or area, that it is necessary so to do,it may, by notification in the Official Gazette,declare this section 'to apply to such State or area, and thereupon an every contract in such State or area which is entered

into after the date of the notification otherwise than between members of a recognised stock exchange in such State or area or through or with such member shall be illegal.

2[13A.Additional trading floor. A stock exchange may establish additional trading floor with the prior approval of the Securities and Exchange Board of India in accordance with the terms and conditions stipulated by the said Board.

Explanation.- For the purposes of this section, "additional trading floor" means a trading ring or trading facility offered by a recognised stock exchange outside its area of operation to enable the investors to buy and sell securities through such trading floor under the regulatory framework of that stock exchange.]

14.

Contracts in notified areas to be void in certain circumstances.

14.Contracts in notified areas to be void in certain circumstances. (1) Any contract entered into in any State or area specified in the notification under section 13 which is in contravention of any of the

1 Subs. by Act 56 of 1974, s. 3 and Sch. II.

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bye-laws specified in that behalf under clause (a) of sub-section (3) of section 9 shall be void-

(i)as respects the rights of any member of the recognised stock exchange who has entered into such contract' in contravention of any such bye-law, and also

(ii) as respects the right of any other person who has knowingly participated in the transaction entailing such contravention.

(2) Nothing in sub-section (1) shall be construed to affect the right of any person other than a member of the recognised stock exchange to enforce any such contract or to recover any sum under or in respect of such contract if such person had no knowledge that the transaction was in contravention of any of the bye-laws specified in clause (a) of sub-section (3) of section 9.

15.

Members may not act as principals in certain circumstances.

15. Members may not act as principals in certain circumstances. No member of a recognised stock exchange shall in respect of any securities enter into any contract as a principal with any person other than a member of a recognised stock exchange, unless he has secured the consent or authority of such person and discloses in the note, memorandum or agreement of sale or purchase that he is acting as a principal:

Provided that where the member has secured the consent or authority of such person otherwise than in writing he shall secure written confirmation by such person of such consent or authority within three days from the date of the contract

Provided further that no such written consent or authority of such person shall be necessary for closing out any outstanding contract entered into by such person in accordance with the bye-laws, if the member discloses in the note, memorandum or agreement of sale or purchase in respect of such closing out that he is acting as a principal.

16.

Power to prohibit contracts in certain cases.

16. Power to prohibit contracts in certain cases. (1) If the Central Government is of opinion that it is necessary to prevent undesirable speculation in specified securities in any State or area, it may, by notification in the Official Gazette, declare that no person in the State or area specified in the notification shall, save with the permission of the Central Government, enter into any contract for the sale or purchase of any security specified in the notification except to the extent and in the manner, if any, specified therein.

(2) All contracts in contravention of the provisions of sub-section (1) entered into after the date of the notification issued thereunder shall be illegal.

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17.

Licensing of dealers in securities in certain areas.

17. Licensing of dealers in securities in certain areas. (1) Subject to the provisions of sub-section (3) and to the other provisions contained in this Act, no person shall carry on or purport to carry on, whether on his own behalf or on behalf of any other person, the business of dealing in securities in any State or area to which section 13 has not been declared to apply and to which the Central Government may, by notification in the Official Gazette, declare this section to apply, except under the authority of licence granted by the Securities and Exchange Board of India] in this behalf.

(2) No notification under sub-section (1) to any State or area unless the Central Government is satisfied, having regard to the manner in which securities are being dealt with in such State or area, that it is desirable or expedient in the interest of the trade or in the public interest that such dealings should be regulated by a system of licensing.

(3) The restrictions imposed by sub-section (1) in relation to dealings in securities shall not apply to the doing of anything by or on behalf of a member of any recognised stock exchange.

18.

Exclusion of spot delivery contracts from sections 13, 14, 15 and 17.

18.Exclusion of spot delivery contracts from sections 13, 14, 15 and 17. (1) Nothing contained in sections 13, 14, 15 and 17 shall apply to spot delivery contracts.

(2)Notwithstanding anything contained in sub-section (1), if the Central Government is of opinion that in the interest of the trade or in the public rest it is expedient to regulate and control the business of dealing in it delivery contracts also in any State or area (whether section 13 has been declared to apply to that State or area or not), it may, by notification in the Official Gazette, declare that the provisions of section 17 shall also apply to such State or area in respect of spot delivery contracts y or in respect of spot delivery contracts for the sale or purchase securities as may be specified in the notification, and may also the manner in which-, and the extent to which, the provisions of that section shall so apply.

19.

Stock exchanges other than recognised stock exchanges prohibited.

19.Stock exchanges other than recognised stock exchanges prohibited. (1) No person shall, except with the permission of the Central Government, organise or assist in organising or be a member of any stock exchange (other than a recognised stock exchange) for the purpose of assisting in, entering into or performing any contracts in securities.

(2)(1)This section shall come into force in any State or area on Such date as the Central Government may, by notification in the Official Gazette, appoint.

20.

Prohibition of options in securities.

20.Prohibition of options in securities.(1) Notwithstanding anything contained in this Act or in any other law for the time being in force, all options in securities entered into after the commencement of this Act shall be illegal.

1 Subs. by Act 15 of 1992, s. 33 & Sch. (w.e.f. 21.2.1992).

Came into force the Union territory of Delhi from 9-12-57. vide S.R.O. 5911, dated 9-12-57, Gazette of India, Part II, Sec. 3. Extraordinary, page 2946.

Came into force in the area covered by the limits of Municipal Corporations of Hyderabad and Secunderabad from 29-9-1958 vide GSR. 867, dated 29-9-1958, Gazette of India, Part II, section 3(i) page 417.

Came into force in the area covered by the Municipal limits of Indore city from 24-12-1958, vide GSR. 1232, dated 24-12-1958, Gazette of India, Part II, section 3(i), page 593.

Came into force in the area included within the limits of Ahmadabad Municipal Corporation from the 9th August vide GSR. 676-, dated-4-8-1958, Gazette of India, Part I, section-3(i), page.617.

Came into force in the area included in the Greater Bombay from 9-8-1958, vide GSR. 677, dated 4-8-1958, Gazette of India, Part section 3(i), page-.618.

15-10-1960 In the area included in the Municipal limits of Calcutta & Howrah: vide Notification No.GSR.1206 dated 5-10-1960, see Gazette of India, Part II, section 3(i),- page 1578.

8-9-1962 In the States and areas where the section is not already in force. vide Notification No. S.O.2819, dated 8-9-1962, see Gazette of India, Extraordinary, Part II, section 3(ii), page-2013.

came into force in the area covered by the Pune Metropolitan region in the State of Maharashtra from 2-9-1982. vide Notification No. S.O. 626(E), dated 2-9-1982, Gazette of India, Part II, section Section 3 (ii), page-2.

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22.

Right of appeal against refusal by stock exchanges to list securities of public companies.

1[22.Right of appeal against refusal by stock exchanges to list securities of public companies. Where a recognised stock exchange acting in pursuance of power given to it by its bye-laws, refuses to list the securities of public company, the company shall be entitled to be furnished with reasons for such, refusal, and may,-

(a) within fifteen days from the date on which the reasons for such refusal are furnished to it, or

(b) where the stock exchange has omitted or failed to dispose within the time specified in sub-section (1) of section 73 of the Companies Act, 1956 (1 of 1956.) (hereafter in this section referred to as the "specified time"), the application for permission for the shares or debentures be dealt with on the stock exchange, within fifteen days from the date of expiry of the specified time or within such further period not exceeding one month, as the Central Government may, on sufficient cause being shown, allow,

appeal to the Central Government against such refusal, omission, failure, as the case may be, and thereupon the Central Government may, after giving the stock exchange an opportunity of being heard,-

(i) vary or set aside the decision of the stock exchange, or

(ii) where the stock exchange has omitted or failed to dispose of the application within the specified time, grant or refuse the permission on,

and where the Central Government sets aside the decision of the recognised stock exchange or grants the permission, the stock exchange shall act & conform to the orders of the Central Government.]

shall be accompanied by the instrument of transfer of the ,to which it relates, the'-documentary evidence, if any, fur the company along With the instrument of transfer, and such other nature and such fees as may be prescribed.

(6) On receipt of 'a reference under sub-section (4), the Law Board shall, after causing-reasonable notice to be given to the company and also to the transferor and the transferee concerned and giving them a reasonable opportunity to make their representations, if any, in writing by order direct either that the transfer shall, be registered by the.-company or that it need not be registered by it.

(7) Where on a reference under, subsection (4) the Company Law Board directs that the transfer of the securities to which it relates-

(a) shall be registered by the company, the company shall give effect to the direction within ten days of the receipt of the order as if it were an order Made on appeal by the Company Law Board. in exercise of the powers under section 111 of the Companies Act 1956; (1 of 1956.)

(b) need not be registered by 'the company,. the company shall,, within ten days from the date of such direction, intimate the transferor and the transferee accordingly.

(8) If default is made in complying with the provisions of ,this section, the company and every officer of the company who is in default shall be punishable with fine which may, extend to five thousand rupees.

(9)If in any reference made under clause (c) of subsection (4) it of this section, any person, makes any statement-

(a) which is false. in any material particular, knowing it to be false; or

(b) which omits any material fact knowing it to be material, he shall be punishable with imprisonment for a term which a may extend to three years and shall also be liable to fine.

(10) For the removal of doubts, it is hereby provided that nothing is this section shall apply in relation to any

securities the instrument of transfer in respect whereof has been lodged with the company before the commencement of the Securities Contracts (Regulation) Amendment Act 1985."]

2[22A. Free transferability and registration of transfers of listed securities of companies. (1) In this section, unless the context otherwise requires,-

(a) "company" means a company whose securities are listed on a recognised stock exchange;

(b) "security" means security of a company being a security, listed on a recognised stock exchange but not security which is not fully paid up or on which there is a lien;

(c) all other words and expressions used in this section and not defined in this Act but defined in the Companies Act, 1956 shall have the meanings as assigned to them in that Act.

(2) Subject to the provisions of this section, securities of companies shall be freely transferable.

(3) Notwithstanding anything contained in its articles or in section 82 or section 111 of the Companies Act, 1956, but subject to the other provisions of this section, a company may refuse to register the transfer of any of its securities in the name of the transferee on any one or more of the following grounds and on no other ground, namely:-

(a) that the instrument of transfer is not proper or has not been duly stamped and executed or that the certificate relating to the security has not been delivered to the company or that any other requirement to registration of such transfer has not been complied with;

3["(b) that the transfer of the securities is in contravention of any law or rules made thereunder or any administrative instructions or conditions of listing agreement laid down in pursuance of such laws or rules;

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(c) that the transfer of the security is likely to result in such change in the composition of the Board of Directors as would be prejudicial to the interests of the company or to the public interest;

(d) that the transfer of the security is prohibited by any order of any court, tribunal or other authority under any law for the time being in force.

(4) A company shall, before the expiry of two months from the date on which the instrument of transfer of any of its securities is lodged with if for the purposes of registration of such transfer, not only form, in good faith, its opinion as to whether such registration ought not or ought to be refused on any of the grounds mentioned in sub-section (3) but also--

(a) if it has formed the opinion that such registration ought not to be refused, effect such registration;

(b) if it has formed the opinion that such registration ought to be refused on the ground mentioned in clause (a) of sub-section (3), intimate the transferor and the transferee by notice in the prescribed form about the requirements under the law which has or which have to be complied with for securing such registration; and

(c) in any other case, make a reference to the Company Law Board and forward copies of such reference to the transferor and the transferee.

(5) Every reference under clause (c) of sub-section (4), shall be in the prescribed form and contain the prescribed particulars and

1 Subs. by A 41. of 1974, s. 42 (w.e.f. 1-2-1975).

2 Ins. by Act 40 of 1985 S. 2 (w.e.f. 17.1.1986).

3 Subs. by Act 15 of 1992, s. 33 & Sch. (w.e.f. 21.2.1992).

4. Subs by Act 90 of 1995, s. 23 (w.e.f. 25.1.1993).

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PENALTIES AND PROCEDURE

23.

Penalties.

23.Penalties. (1) Any person who--

(a) without reasonable excuse (the burden of proving which shall be

on him) fails to comply with any requisition made under subsection

(4) of section 6 ; or

(b) enters into any contract in contravention of any of the provisions contained in section 13 or section 16 ; or

(c) contravenes the provisions contained in section 17, or section 19 ; or

(e) owns or keeps a place other than that of a recognised stock exchange which is used for the purpose of entering

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into or performing any contracts in contravention of any of the provisions of this Act and knowingly permits such place to be used for such purposes ; or

(f) manages, controls, or assists in keeping any place other than that of a recognised stock exchange which is used for the purpose of entering into or performing any contracts in contravention of any of the provisions of this Act or at which contracts are recorded or adjusted or rights or liabilities arising out of contracts are adjusted, regulated or enforced in any manner whatsoever; or

(g) not being a member of a recognised stock exchange or his agent authorized as such under the rules or bye-laws of such stock exchange or not being a dealer in securities licensed under section 17 wilfully represents to or induces any person to believe that contracts can be entered into or performed under this Act through him; or

(h)not being a member of a recognised stock exchange or his agent authorized as such under the rules or bye-laws of such stock exchange or not being a dealer in securities licensed under section 17, canvasses, advertises or touts in any manner either for himself or on behalf of any other persons for any business connected with contracts in contravention of any of the provisions of this Act ; or

(i)joins, gathers or assists in gathering at any place other than the place of business specified in the bye-laws of a recognised stock exchange any person or persons for making bids or offers or for entering into or performing any contracts in contravention of any of the provisions of this Act ;

shall, on conviction, be punishable with imprisonment for a term which may extend to one year, or with fine, or with both.

(2)Any person who enters into any contract in contravention of the provisions contained in section 15 or who fails to comply with the orders of the Securities and Exchange Board of India under Section 21 or the Central Government 22 shall, on conviction, be punishable with fine which may extend to one thousand rupees.

24.

Offences by companies.

24.Offences by companies. (1) Where an offence has be any, every person who, at the time when the offence was committed, was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence, and shall be liable to be proceeded against and punished accordingly:

1 Subs. by Act 15 of 1992, s. 33 & Sch. (w.e.f. 21.2.1992).

2. Subs. by Act 90 of 1995, s. 24 (w.e.f. 25.1.1995).

Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent the commission of such offence.

(2) Notwithstanding anything contained in sub-section (1) where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to any gross negligence on the part of any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer of the company, shall also be deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

Explanation.-For the purpose of this section,--

(a) " company " means any body corporate and includes a firm or other association of individuals, and

(b)"director", in relation to a firm, means a partner in the firm.

[(3) The provisions of this section shall be in addition to, and not in derogation of, the provisions of section 22A.]

25.

Certain offences to be cognizable.

25.Certain offences to be cognizable. Notwithstanding anything contained in the Code of Criminal Procedure, 1898, (5 of 1898.) any offence punishable under sub-section (1) of section 23 shall be deemed to be a cognizable offence within the meaning of that Code.

26.

Jurisdiction to try offences under this Act.

26.Jurisdiction to try offences under this Act. No Court inferior

to that of a Presidency Magistrate or a Magistrate of the first class shall take cognizance of or try any offence punishable under this Act.

MISCELLANEOUS

27.

Title to dividends.

27.Title to dividends. (1) It shall be lawful for the holder of any security whose name appears on the books of the company issuing the said security to receive and retain any dividend declared by the company in respect thereof for any year, notwithstanding that the said security has already been transferred by him for consideration, unless the transferee who claims the dividend from the transferor has lodged the security and all other documents relating to the transfer which may be required by the company with the company for being registered in his name within fifteen days of the date on which the dividend became due.

Explanation.-The period specified in this section shall be extended-

(i) in case of death of the transferee, by the actual period taken by his legal representative to establish his claim to the dividend;

1 Ins. by Act 40 of 1985, s. 3 (w.e.f. 17.1.1986).

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(ii) in case of loss of the transfer deed by theft or any other cause beyond the control of the transferee, by the actual period taken for the replacement thereof ; and

(iii) in case of delay in the lodging of any security and other documents relating to the transfer due to causes connected with the post, by the actual period of the delay.

(2) Nothing contained in sub-section (1) shall affect-

(a) the right of a company to pay any dividend which has become due to any person whose name is for the time being registered in the books of the company as the holder of the security in respect, of which the dividend has become due ; or

(b) the right of the transferee of any security to enforce against the transferor or any other person his rights, if any, in relation to the transfer in any case where the company has refused to register the transfer of the security in the name of the transferee.

28.

Act not to be apply in certain cases.

1[28. Act not to be apply in certain cases. (1) The provisions of this Act shall not apply to-

(a) the Government, the Reserve Bank of India, any local authority or any corporation set up by a special law or any person who has effected any transaction with or through the agency of any such authority as is referred to in this clause;

(b) any convertible bond or share warrant or any option or right in relation thereto, in so far as it entitles the person in whose favour any of the foregoing has been issued to obtain at his option from the company or other body corporate issuing the same or from any of its shareholders or duly appointed agents shares of the company or other body corporate, whether by conversion of the bond or warrant or otherwise, on the basis of the price agreed upon when the same was issued.

(2) Without prejudice to the provisions contained in sub-section if the Central Government is satisfied_ that in the interests of trade and commerce or the economic development of the country it is necessary or expedient so to do, it may, by notification in the Official Gazette, specify any class of contracts as contracts to which this Act or any provision contained therein shall not apply, and also the conditions, limitations or restrictions, if any, Subject to which it shall not so apply.]

1 Subs. by Act 49 of 1959, s. 3, for s. 28.

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29.

Protection of action taken in good faith.

29. Protection of action taken in good faith. No suit, prosecution or other legal proceeding whatsoever shall lie in any Court against the governing body or any member, office bearer or servant of any recognised stock exchange or against any person or persons appointed under sub-section (1) of section 11 for anything which is in good faith done or intended to be done in pursuance of this Act or of any rules or bye-laws made thereunder.

["29A. Power to delegate. The Central Government may, by order published in the Official Gazette, direct that the powers exercisable by it under any provision of that Act shall, in relation to such matters and subject to such conditions, if any as may be specified in the order be exercisable also by the Securities and Exchange Board of India."]

30.

Power to make rules.

30. Power to make rules. (1) The Central Government may, by notification in the Official Gazette, make rules for the purpose of carrying into effect the objects of this Act.

(2) In particular, and without prejudice to the generality of the foregoing power, such rules may provide for-

(a) the manner in which applications may be made, the particulars which they should contain and the levy of a fee in respect of such applications ;

(b) the manner in which any inquiry for the purpose of recognising any stock exchange may be made, the

conditions which may be imposed for the grant of such recognition, including conditions as to the admission of members if the stock exchange concerned is to be the only recognised stock exchange in the area; and the form in which such recognition shall be granted;

(c) the particulars which should be contained in the periodical returns and annual reports to be furnished to the Central Government;

(d) the documents which should be maintained and preserved under section 6 and the periods for which they should be preserved;

(e) the manner in which any inquiry by the governing body of a stock exchange shall be made under section 6;

(f) the manner in which the by-laws to be made or amended under this Act shall before being so made or amended be published for criticism;

(g) the manner in which applications may be made by dealers in securities for licences under section 17, the fee payable in respect thereof and the period of such licences, the conditions subject to which licences may be granted, including conditions relating to the forms which may be used in making contracts, the documents to be maintained by licensed dealers and the furnishing of periodical information to such authority as may be specified and the revocation of licences for breach of conditions;

1 Ins. by Act 15 of 1992, s. 33 & Sch.(w.e.f. 21.2.1992).

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(h) the requirements which shall be complied with the public companies for the purpose of getting their securities listed on any stock exchange;

[(ha) the form in which a notice referred to in sub-clause (b) of sub-section (4) of section 22A shall be, the particulars which such notice shall contain, the form in which a reference under clause (c) of the said sub-section (4) shall be, the particulars which such reference shall contain, and the evidence and the fees which shall accompany such reference; and

(i) any other matter which is to be or may be prescribed.

[(3) Every rule made under this section shall be subject to the condition of previous publication and shall, as soon as may be, after its publication in the Official Gazette, be laid before each House of Parliament while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the rule or both Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.] 1950 (42 of 1950.)

31.

Repeal.

31. [Repeal.] Rep. by the Repealing and Amending Act, 1960 (58 of 1960), s. 2 and Sch. I.

1 Subs. by Act 20 of 1983, s. 2 & Sch. (w.e.f. 15-3-1984).

2 Omitted and ins. by Act 40 of 1985, s. 4 (w.e.f. 17.1.1986).

3. Omitted by Act 90 of 1995, s. 25 (w.e.f. 25.1.1995).
