

# Securities Laws (Amendment) Act, 2004

February 26, 2013

## Section 1. Short title and commencement

### **SECURITIES LAWS (AMENDMENT) ACT, 2004<sup>1</sup>**

**[No. 1 OF 2005]**

[January 6, 2005]

An Act further to amend the Securities Contracts (Regulation) Act, 1956 and the Depositories Act, 1996

Be it enacted by Parliament in the Fifty-fifth Year of the Republic of India as follows:-

Prefatory Note-Statement of Objects and Reasons.-Although the Securities Contracts (Regulation) Act, 1956 aims to prevent undesirable transactions in securities by regulating the business of dealing therein, the existing mutual organisational structure of stock exchanges (except two exchanges) failed to address the conflict of interests on stock exchanges. The Joint Parliamentary Committee on the stock market scam and matters relating thereto recommended that the process of corporatisation and demutualisation of exchanges should be expedited and underlined the necessity for early implementation of corporatisation and demutualisation of stock exchanges.

2. The Central Government, in its Action Taken Report laid before both Houses of the Parliament, assured that necessary legislative amendments to give effect to the aforesaid recommendation will be made. In view of this, it is proposed to make amendments in the Securities Contracts (Regulation) Act, 1956 for structural transformation of stock exchanges from mutual organisational form to a demutualised form.

3. Since demutualisation separates ownership, voting rights and management from the right of access to trading, it is imperative that the representation of brokers in Board of Directors of Stock Exchanges is either not permitted at all or kept to a minimum.

4. In order to expedite corporatisation and demutualisation of exchanges, the Securities Laws (Amendment) Bill, 2003 was introduced in the Lok Sabha on the 18th August, 2003 to amend the Securities Contracts (Regulation) Act, 1956 and the Depositories Act, 1996, inter alia, which provided for the following matters, namely:-

(a) defining the corporatisation and demutualisation;

(b) limiting the organisational form of a stock exchange to a corporate entity;

(c) specifying the procedure for corporatisation and demutualisation (including approval of scheme for corporatisation and demutualisation by the Securities and Exchange Board of India);



(d) specifying the time limit within which the shares shall be disinvested by stockbrokers under the scheme of corporatisation and demutualisation;

(e) restricting the voting rights of brokers as shareholders, and brokers' participation on governing boards of stock exchanges so as to plug the loopholes inherent in governance of stock exchanges whose organisational form is mutual;

(f) defining units of mutual funds as "securities", delisting conditions and consequences of violations and transfer of duties and functions of a clearing house to a clearing corporation;

(g) making certain other provisions in the Securities Contracts (Regulation) Act, 1956, similar to those contained in the Securities and Exchange Board of India (Amendment) Act, 2002, such as, conferring powers upon the Securities and Exchange Board of India to issue directions to stock exchanges and the companies whose securities are listed or proposed to be listed, providing appeal from the orders of the Securities Appellate Tribunal to the Supreme Court, enhancing the penalties specified under the Securities Contracts (Regulation) Act, 1956, and adjudication by an adjudicating authority to impose monetary penalties, making provision for compounding of offences and crediting of amount of penalties into the Consolidated Fund of India, etc.

5. After introduction of the Bill, various suggestions were received from the Securities and Exchange Board of India, the Reserve Bank of India and institutions connected with the securities market. In view of the suggestions and developments in the securities market subsequent to introduction of the aforesaid Bill, it has been decided to-

(i) omit the earlier provisions in the Securities Laws (Amendment) Bill, 2003 relating to-

(A) the definition of "derivatives" which included non-securities based derivatives, such as, those based on rates on indices, in view of the apprehension that the proposed amendment would create further disability to the existing over the counter derivatives;



(B) the spot delivery contracts as the exiting provisions are adequate for regulation of certain category of spot contracts;

(C) non-attachment of investment assets as such provision could be misused to pass off assets of brokers as client assets and thus to frustrate the attachment proceedings;

(D) specific conditions of delisting of securities by stock exchanges and instead provide for delisting in the rules under the Securities Contracts (Regulation) Act, 1956 so as to provide flexibility for regulation of delisting;

(ii) incorporate provision in the Securities Contracts (Regulation) Act, 1956 to provide for penalties for offences and grant of immunity on the lines of Section 24-B of the Securities and Exchange Board of India Act, 1992;

(iii) allow, in certain cases, the members of one stock exchange to enter into contract with members of other stock exchanges subject to such terms and conditions as may be stipulated, with prior approval of Securities and Exchange Board of India, by the respective stock

exchanges or after obtaining prior permission from the respective stock exchanges if so stipulated by the stock exchanges with prior approval of Securities and Exchange Board of India;

(iv) make certain amendments in the Depositories Act, 1996 such as, enhancement of existing penalties, make provision for monetary penalty for certain contraventions and provide for crediting penalties into the Consolidated Fund of India, grant of immunity in certain cases by the Central Government and filing of appeal from the Securities Appellate Tribunal to the Supreme Court on the lines of provisions contained in the Securities and Exchange Board of India Act, 1992, etc.

6. Due to dissolution of the 13th Lok Sabha, the said Bill had lapsed. Since Parliament was not in session and it had become necessary to take immediate action to provide for above matters, an Ordinance called the Securities Laws (Amendment) Ordinance, 2004 was promulgated by the President on the 12th October, 2004.

7. The Bill seeks to replace the aforesaid Ordinance.

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**1. Received the assent of the President on January 6, 2005 and published in the Gazette of India, Extra., Part II, Section 1, dated 7th January, 2005, pp. I-14, No. 1**

(1) This Act may be called the Securities Laws (Amendment) Act, 2004.



(2) It shall be deemed to have come into force on the 12th day of October, 2004.

## Section 2. Amendment of Section 2

In Section 2 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956) (hereafter in this chapter referred to as the principal Act),-

(i) clause (aa) shall be re-lettered as clause (ac) thereof and before the clause (ac) as so re-lettered, the following clauses shall be inserted, namely:-

'(aa) "corporatisation" means the succession of a recognised stock exchange, being a body of individuals or a society registered under the Societies Registration Act, 1860 (21 of 1860), by another stock exchange, being a company incorporated for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities carried on by such individuals or society;

(ab) "demutualisation" means the segregation of ownership and management from the trading rights of the members of a recognised stock exchange in accordance with a scheme approved by the Securities and Exchange Board of India;';

(ii) clause (ga) shall be re-lettered as clause (gb) thereof and before the clause (gb) as so re-lettered, the following clause shall be inserted, namely:-

'(ga) "scheme" means a scheme for corporatisation or demutualisation of a recognised stock exchange which may provide for-

(i) the issue of shares for a lawful consideration and provision of trading rights in lieu of membership cards of members of a recognised stock exchange;

(ii) the restrictions on voting rights;

(iii) the transfer of property, business, assets, rights, liabilities, recognitions, contracts of the recognised stock exchange, legal proceedings by, or against, the recognised stock exchange, whether in the name of the recognised stock exchange or any trustee or otherwise and any permission given to, or by, the recognised stock exchange;

(iv) the transfer of employees of a recognised stock exchange to another recognised stock exchange;

(v) any other matter required for the purpose of, or in connection with, the corporatisation or demutualisation, as the case may be, of the recognised stock exchange;';

(iii) in clause

(h), after sub-clause (ic), the following sub-clause shall be inserted, namely:-

'(id) units or any other such instrument issued to the investors under any mutual fund scheme;';

(iv) for clause

(j), the following clause shall be substituted, namely:-

'(j) "stock exchange" means-

(a) any body of individuals, whether incorporated or not, constituted before corporatisation and demutualisation under Sections 4-A and 4-B, or

(b) a body corporate incorporated under the Companies Act, 1956 (1 of 1956) whether under a scheme of corporatisation and demutualisation or otherwise,

for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities;';

### Section 3. Insertion of new Sections 4-A and 4-B

After Section 4 of the principal Act, the following sections shall be inserted, namely:-

'4-A. Corporatisation and demutualisation of stock exchanges.-On and from the appointed date, all recognised stock exchanges (if not corporatised and demutualised before the appointed date) shall be corporatised and demutualised in accordance with the provisions contained in Section 4-B :

Provided that the Securities and Exchange Board of India may, if it is satisfied that any recognised stock exchange was prevented by sufficient cause from being corporatised and demutualised on or after the appointed date, specify another appointed date in respect of that recognised stock exchange and such recognised stock exchange may continue as such before such appointed date.

Explanation.-For the purposes of this section, "appointed date" means the date which the Securities and Exchange Board of India may, by notification in the Official Gazette, appoint and different appointed dates may be appointed for different recognised stock exchanges.

4-B. Procedure for corporatisation and demutualisation.-(1) All recognised stock exchanges referred to in Section 4-A shall, within such time as may be specified by the Securities and Exchange Board of India, submit a scheme for corporatisation and demutualisation for its approval :

Provided that the Securities and Exchange Board of India, may, by notification in the Official Gazette, specify name of the recognised stock exchange, which had already been corporatised and demutualised, and such stock exchange shall not be required to submit the scheme under this section.

(2) On receipt of the scheme referred to in sub-section (1), the Securities and Exchange Board of India may, after making such enquiry as may be necessary in this behalf and obtaining such further information, if any, as it may require and if it is satisfied that it would be in the interest of the trade and also in the public interest, approve the scheme with or without modification.

(3) No scheme under sub-section (2) shall be approved by the Securities and Exchange Board of India if the issue of shares for a lawful consideration or provision of trading rights in lieu of membership card of the members of a recognised stock exchange or payment of dividends to members have been proposed out of any reserves or assets of that stock exchange.

(4) Where the scheme is approved under sub-section (2), the scheme so approved shall be published immediately by-

(a) the Securities and Exchange Board of India in the Official Gazette;

(b) the recognised stock exchange in such two daily newspapers circulating in India, as may be specified by the Securities and Exchange Board of India,

and upon such publication, notwithstanding anything to the contrary contained in this Act or any other law for the time being in force or any agreement, award, judgment, decree or other instrument for the time being in force, the scheme shall have effect and be binding on all persons and authorities including all members, creditors, depositors, and employees of the recognised stock exchange and on all persons having any contract, right, power, obligation or liability with, against, over, to, or in connection with, the recognised stock exchange or its members.

(5) Where the Securities and Exchange Board of India is satisfied that it would not be in the interest of the trade and also in the public interest to approve the scheme under sub-section (2), it may, by an order, reject the scheme and such order of rejection shall be published by it in the Official Gazette :

Provided that the Securities and Exchange Board of India shall give a reasonable opportunity of being heard to all the persons concerned and the recognised stock exchange concerned before passing an order rejecting the scheme.

(6) The Securities and Exchange Board of India may, while approving the scheme under sub-section (2), by an order in writing, restrict-

(a) the voting rights of the shareholders who are also stockbrokers of the recognised stock exchange;



(b) the right of shareholders or a stockbroker of the recognised stock exchange to appoint the representatives on the governing board of the stock exchange;

(c) the maximum number of representatives of the stockbrokers of the recognised stock exchange to be appointed on the governing board of the recognised stock exchange, which shall not exceed one-fourth of the total strength of the governing board.

(7) The order made under sub-section (6) shall be published in the Official Gazette and on the publication thereof, the order shall, notwithstanding anything to the contrary contained in the Companies Act, 1956 (1 of 1956), or any other law for the time being in force, have full effect.

(8) Every recognised stock exchange, in respect of which the scheme for corporatisation or demutualisation has been approved under sub-section (2), shall, either by fresh issue of equity shares to the public or in any other manner as may be specified by the regulations made by the Securities and Exchange Board of India, ensure that at least fifty-one per cent of its equity share capital is held, within twelve months from the date of publication of the order under sub-section (7), by the public other than shareholders having trading rights ;

Provided that the Securities and Exchange Board of India may, on sufficient cause being shown to it and in the public interest, extend the said period by another twelve months.'

## Section 4. Amendment of Section 5

Section 5 of the principal Act shall be numbered as subsection (1) thereof and after sub-section (1) as so numbered, the following sub-section shall be inserted, namely:-

"(2) Where the recognised stock exchange has not been corporatised or demutualised or it fails to submit the scheme referred to in sub-section (1) of Section 4-B within the specified time therefor or the scheme has been rejected by the Securities and Exchange Board of India under sub-section (5) of Section 4-B, the recognition granted to such stock exchange under Section 4, shall, notwithstanding anything to the contrary contained in this Act, stand withdrawn and the Central Government shall publish, by notification in the Official Gazette, such withdrawal of recognition :

Provided that no such withdrawal shall affect the validity of any contract entered into or made before the date of the notification, and the Securities and Exchange Board of India may, after consultation with the stock exchange, make such provisions as it deems fit in the order rejecting the scheme published in the Official Gazette under subsection (5) of Section 4-B."

### Section 5. Insertion of new Section 8-A

After Section 8 of the principal Act, the following section shall be inserted, namely:-

"8-A. Clearing corporation.-(1) A recognised stock exchange may, with the prior approval of the Securities and Exchange Board of India, transfer the duties and functions of a clearing house to a clearing corporation, being a company incorporated under the Companies Act, 1956 (1 of 1956), for the purpose of-

(a) the periodical settlement of contracts and differences thereunder;

(b) the delivery of, and payment for, securities;

(c) any other matter incidental to, or connected with, such transfer.



(2) Every clearing corporation shall, for the purpose of transfer of the duties and functions of a clearing house to a clearing corporation referred to in sub-section (1), make bye-laws and submit the same to the Securities and Exchange Board of India for its approval.

(3) The Securities and Exchange Board of India may, on being satisfied that it is in the interest of the trade and also in the public interest to transfer the duties and functions of a clearing house to a clearing corporation, grant approval to the bye-laws submitted to it under sub-section (2) and approve the transfer of the duties and functions of a clearing house to a clearing corporation referred to in sub-section (1).

(4) The provisions of Sections 4, 5, 6, 7, 8, 9, 10, 11 and 12 shall, as far as may be, apply to a clearing corporation referred to in sub-section (1) as they apply in relation to a recognised stock exchange."

## Section 6. Insertion of new Section 12-A

After Section 12 of the principal Act, the following section shall be inserted, namely:-

"12-A. Power (a) issue directions.-If, after making or causing to be made an inquiry, the Securities and Exchange Board of India is satisfied that it is necessary-

(a) in the interest of investors, or orderly development of securities market; or

(b) to prevent the affairs of any recognised stock exchange or clearing corporation, or such other agency or person, providing trading or clearing or settlement facility in respect of securities, being conducted in a manner detrimental to the interests of investors or securities market; or

(c) to secure the proper management of any such stock exchange or clearing corporation or agency or person, referred to in clause (b),

it may issue such directions,-

(i) to any stock exchange or clearing corporation or agency or person referred to in clause (b) or any person or class of persons associated with the securities market; or

(ii) to any company whose securities are listed or proposed to be listed in a recognised stock exchange,

as may be appropriate in the interests of investors in securities and the securities market."

## Section 7. Amendment of Section 13

In Section 13 of the principal Act,-

(a) for the words "between members of a recognised stock exchange", the words "between members of a recognised stock exchange or recognised stock exchanges" shall be substituted;

(b) for the words "State or area" wherever they occur, the words "State or States or area" shall be substituted;

(c) the following proviso shall be inserted, namely:-



"Provided that any contract entered into between members of two or more recognised stock exchanges in such State or States or area, shall-

(i) be subject to such terms and conditions as may be stipulated by the respective stock exchanges with prior approval of Securities and Exchange Board of India;

(ii) require prior permission from the respective stock exchanges if so stipulated by the stock exchanges with prior approval of Securities and Exchange Board of India."

## Section 8. Insertion of new Section 21-A

After Section 21 of the principal Act, the following section shall be inserted, namely:-

"21-A. Delisting of securities.-

(1) A recognised stock exchange may delist the securities, after recording the reasons therefor, from any recognised stock exchange on any of the ground or grounds as may be prescribed under this Act:

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

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

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

## Section 9. Substitution of new section for Section 22-F

For Section 22-F of the principal Act, the following section shall be substituted, namely:-

"22-F. Appeal to Supreme Court,-Any person aggrieved by any decision or order of the Securities Appellate Tribunal may file an appeal to the Supreme Court within sixty days from the date of communication of the decision or order of the Securities Appellate Tribunal to him on any question of law arising out of such order :

Provided that the Supreme Court may, if it is satisfied that the appellant was prevented by sufficient cause from filing the appeal within the said period, allow it to be filed within a further period not exceeding sixty days."

## Section 10. Amendment of Section 23

In Section 23 of the principal Act,-

(a) in sub-section (1), after clause (0, for the words "shall, on conviction, be punishable with imprisonment for a term which may extend to one year, or with fine or with both", the words "shall, without prejudice to any award of penalty by the Adjudicating Officer under this Act, on conviction, be punishable with imprisonment for a term which may extend to ten years or with fine, which may extend to twenty-five crore rupees, or with both" shall be substituted;





(b) in sub-section (2),-

(i) for the word and figures "Section 21," the words, figures and letter "Section 21 or Section 21-A" shall be substituted.

(ii) for the words "shall, on conviction, be punishable with fine which may extend to one thousand rupees", the words "shall, without prejudice to any award of penalty by the Adjudicating Officer under this Act, on conviction, be punishable with imprisonment for a term which may extend to ten years or with fine, which may extend to twenty-five crore rupees, or with both" shall be substituted.

## Section 11. Insertion of new Sections 23-A to 23-O

After Section 23 of the principal Act, the following sections shall be inserted, namely:-

"23-A. Penalty for failure to furnish information, return, etc.-Any person, who is required under this Act or any rules made thereunder,-

(a) to furnish any information, document, books, returns or report to a recognised stock exchange, fails to furnish the same within the time specified therefor in the listing agreement or conditions or bye-laws of the recognised stock exchange, shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less for each such failure;

(b) to maintain books of account or records, as per the listing agreement or conditions, or bye-laws of a recognised stock exchange, fails to maintain the same, shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

23-B. Penalty for failure by any person to enter into an agreement with clients.-If any person, who is required under this Act or any bye-laws of a recognised stock exchange made thereunder, to enter into an agreement with his client, fails to enter into such an agreement, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less for every such failure.

23-C. Penalty for failure to redress Investors' grievances.-If any stockbroker or sub-broker or a company whose securities are listed or proposed to be listed in a recognised stock exchange, after having been called upon by the Securities and Exchange Board of India or a recognised stock exchange in writing, to redress the grievances of the investors, fails to redress such grievances within the time stipulated by the Securities and Exchange Board of India or a recognised stock exchange, he or it shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

23-D. Penalty for failure to segregate securities or moneys of client or clients.-If any person, who is registered under Section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 3992) as a stockbroker or sub-broker, fails to segregate securities or moneys of the client or clients or uses the securities or moneys of a client or clients for self or for any other client, he shall be liable to a penalty not exceeding one crore rupees.

23-E. Penalty for failure to comply with listing conditions or delisting conditions or grounds.-If a company or any person managing collective investment scheme or mutual fund, fails to comply with the listing conditions or delisting conditions or grounds or commits a breach thereof, it or he shall be liable to a penalty not exceeding twenty-five crore rupees.



23-F. Penalty for excess dematerialisation or delivery of unlisted securities.-If any issuer dematerialises securities more than the issued securities of a company or delivers in the stock exchanges the securities which are not listed in the recognised stock exchange or delivers securities where no trading permission has been given by the recognised stock exchange, he shall be liable to a penalty not exceeding twenty-five crore rupees.

23-G. Penalty for failure to furnish periodical returns, etc.-If a recognised stock exchange fails or neglects to furnish periodical returns to the Securities and Exchange Board of India or fails or neglects to make or amend its rules or bye-laws as directed by the Securities and Exchange Board of India or fails to comply with directions issued by the Securities and Exchange Board of India, such recognised stock exchange shall be liable to a penalty which may extend to twenty-five crore rupees.

23-H. Penalty for contravention where no separate penalty has been provided.-Whoever fails to comply with any provision of this Act, the rules or articles or bye-laws or the regulations of the recognised stock exchange or directions issued by the Securities and Exchange Board of India for which no separate penalty has been provided, shall be liable to a penalty which may extend to one crore rupees. ;

23-I. Power to adjudicate.-(1) For the purpose of adjudging under Sections 23-A, 23-B, 23-C, 23-D, 23-E, 23-F, 23-G and 23-H, the Securities and Exchange Board of India shall appoint any officer not below the rank of a Division Chief of the Securities and Exchange Board of India to be an adjudicating officer for holding an inquiry in the prescribed manner after giving any person concerned a reasonable opportunity of being heard for the purpose of imposing any penalty.

(2) While holding an inquiry, the adjudicating officer shall have power to summon and enforce the attendance of any person acquainted with the facts and circumstances of the case to give evidence or to produce any document, which in the opinion of the adjudicating officer, may be useful for or relevant to the subject-matter of the inquiry and if, on such inquiry, he is satisfied that the person has failed to comply with the provisions of any of the sections specified in sub-section (1), he may impose such ` penalty as he thinks fit in accordance with the provisions of any of those sections.

23-J. Factors to be taken into account by adjudicating officer.-While adjudging the quantum of penalty under Section 23-I, the adjudicating officer shall have due regard to the following factors, namely:-

- (a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;
- (b) the amount of loss caused to an investor or group of investors as a result of the default;
- (c) the repetitive nature of the default.

23-K. Crediting sums realised by way of penalties to Consolidated Fund of India.- All sums realised by way of penalties under this Act shall be credited to the Consolidated Fund of India.

23-L. Appeal to Securities Appellate Tribunal.-(1) Any person aggrieved, by the order or decision of the recognised stock exchange or the adjudicating officer or any order made by the Securities and Exchange Board of India under Section 4-B, may prefer an appeal before the Securities Appellate Tribunal and the provisions of Sections 22-B, 22-C, 22-D and 22-E of this Act, shall apply, as far as may be, to such appeals.

(2) Every appeal under sub-section (1) shall be filed within a period of forty-five days from the date on which a copy of the order or decision is received by the appellant and it shall be in such



form and be accompanied by such fee as may be prescribed :

Provided that the Securities Appellate Tribunal may entertain an appeal after the expiry of the said period of forty-five days if it is satisfied that there was sufficient cause for not filing it within that period.

(3) On receipt of an appeal under sub-section (1), the Securities Appellate Tribunal may, after giving the parties to the appeal, an opportunity of being heard, pass such orders thereon as it thinks fit, confirming, modifying or setting aside the order appealed against.

(4) The Securities Appellate Tribunal shall send a copy of every order made by it to the parties to the appeal and to the concerned adjudicating officer.

(5) The appeal filed before the Securities Appellate Tribunal under sub-section (1) shall be dealt with by it as expeditiously as possible and endeavour shall be made by it to dispose of the appeal finally within six months from the date of receipt of the appeal.

23-M. Offences.-(1) Without prejudice to any award of penalty by the adjudicating officer under this Act, if any person contravenes or attempts to contravene or abets the contravention of the provisions of this Act or of any rules or regulations or bye-laws made thereunder, for which no punishment is provided elsewhere in this Act, he shall be punishable with imprisonment for a term which may extend to ten years, or with fine, which may extend to twenty-five crore rupees or with both.

(2) If any person fails to pay the penalty imposed by the adjudicating officer or fails to comply with any of his directions or orders, he shall be punishable with imprisonment for a term which shall not be less than one month but which may extend to ten years, or with fine, which may extend to twenty-five crore rupees, or with both.

23-N. Composition of certain offences.-Notwithstanding anything contained in the Code of Criminal Procedure, 1973 (2 of 1974), any offence punishable under this Act, not being an offence punishable with imprisonment only, or with imprisonment and also with fine, may either before or after the institution of any proceeding, be compounded by a Securities Appellate Tribunal or a court before which such proceedings are pending.

23-O. Power to grant immunity.-(1) The Central Government may, on recommendation by the Securities and Exchange Board of India, if the Central Government is satisfied, that any person, who is alleged to have violated any of the provisions of this Act or the rules or the regulations made thereunder, has made a full and true disclosure in respect of alleged violation, grant to such person, subject to such conditions as it may think fit to impose, immunity from prosecution for any offence under this Act, or the rules or the regulations made thereunder or also from the imposition of any penalty under this Act with respect to the alleged violation :

Provided that no such immunity shall be granted by the Central Government in cases where the proceedings for the prosecution for any such offence have been instituted before the date of receipt of application for grant of such immunity :

Provided further that the recommendation of the Securities and Exchange Board of India under this sub-section shall not be binding upon the Central Government.

(2) An immunity granted to a person under sub-section (1) may, at any time, be withdrawn by the Central Government, if it is satisfied that such person had, in the course of the proceedings, not complied with the condition on which the immunity was granted or had given false evidence, and thereupon such person may be tried for the offence with respect to which the immunity was granted or for any other offence of which he appears to have been guilty in connection with the



contravention and shall also become liable to the imposition of any penalty under this Act to which such person would have been liable, had not such immunity been granted.”.

## Section 12. Amendment of Section 25

In Section 25 of the principal Act, the words, brackets and figure “sub-section (1) of shall be omitted.

## Section 13. Substitution of new section for Section 26

For Section 26 of the principal Act, the following section shall be substituted, namely:-

“26. Cognizance of offences by courts.-(1) No court shall take cognizance of any offence punishable under this Act or any rules or regulations or bye-laws made thereunder, save on a complaint made by the Central Government or State Government or the Securities and Exchange Board of India or a recognised stock exchange or by any person.

(2) No court inferior to that of a Court of Session shall try any offence punishable under this Act.”

## Section 14. Insertion of new Section 27-B

After Section 27-A of the principal Act, the following section shall be inserted, namely:-

“27-B. Right to receive income from mutual fund.-(1) It shall be lawful for the holder of any securities, being units or other instruments issued by any mutual fund, whose name appears on the books of the mutual fund issuing the said security to receive and retain any income in respect of units or other instruments issued by the mutual fund declared by the mutual fund in respect thereof for any year, notwithstanding that the said security, being units or other instruments issued by the mutual fund, has already been transferred by him for consideration, unless the transferee who claims the income in respect of units or other instruments issued by the mutual fund from the transferor has lodged the security and all other documents relating to the transfer which may be required by the mutual fund with the mutual fund for being registered in his name within fifteen days of the date on which the income in respect of units or other instruments issued by the mutual fund 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 income in respect of units or other instrument issued by the mutual fund;

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

(iii) in case of delay in the lodging of any security, being units or other instruments issued by the mutual fund, 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 mutual fund to pay any income from units or other instruments issued by the mutual fund which has become due to any person, whose name is for the time being registered in the books of the mutual fund as the holder of the security being units or other instruments



issued by the mutual fund in respect of which the income in respect of units or other instruments issued by the mutual fund has become due; or

(b) the right of a transferee of any security, being units or other instruments issued by the mutual fund, to enforce against the transferor or any other person, his rights, if any, in relation to the transfer in any case where the mutual fund has refused to register the transfer of the security being units or other instruments issued by the mutual fund in the name of the transferee.”.

## Section 15. Amendment of Section 30

In Section 30 of the principal Act,-

(a) in sub-section (2), for clause (ha), the following clauses shall be substituted, namely;-

“(ha) the grounds on which the securities of a company may be delisted from any recognised stock exchange under sub-section (1) of Section 21-A;

(hb) the form in which an appeal may be filed before the Securities Appellate Tribunal under sub-section (2) of Section 21-A and the fees payable in respect of such appeal;

(hc) the form in which an appeal may be filed before the Securities Appellate Tribunal under Section 22-A and the fees payable in respect of such appeal;

(hd) the manner of inquiry under sub-section (1) of Section 23-I;

(he) the form in which an appeal may be filed before the Securities Appellate Tribunal under Section 23-L and the fees payable in respect of such appeal;”.

(b) for sub-section (3), the following sub-section shall be substituted, namely:-

“(3) Every rule made under this Act shall be laid, as soon as may be after it is made, 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 House 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.”.

## Section 16. Insertion of new Section 31

After Section 30 of the principal Act, the following section shall be inserted, namely:-

“31. Power of Securities and Exchange Board of India to make regulations.-(1) Without prejudice to the provisions contained in Section 30 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Securities and Exchange Board of India may, by notification in the Official Gazette, make regulations consistent with the provisions of this Act and the rules made thereunder to carry out the purposes of this Act,

(2) In particular, and without prejudice to the generality of the foregoing power, such regulations may provide for the manner in which at least fifty-one per cent of equity share capital of a recognised stock exchange is held within twelve months from the date of publication of the



order under sub-section (7) of Section 4-B by the public other than the shareholders having trading rights under sub-section (8) of that section.

(3) Every regulation made under this Act shall be laid, as soon as may be after it is made, 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 regulation or both Houses agree that the regulation should not be made, the regulation 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 regulation.”.

## Section 17. Insertion of new Sections 19-A, 19-B, 19-C, 19-D, 19-E, 19-F, 19-G, 19-H, 19-I and 19-J

After Section 19 of the Depositories Act, 3996 (22 of 1996) (hereafter in this chapter referred to as the principal Act), the following sections shall be inserted, namely:-

“19-A, Penalty for failure to furnish information, return, etc.-Any person, who is required under this Act or any rules or regulations or bye-laws made there under,-

(a) to furnish any information, document, books, returns or report to the Board, fails to furnish the same within the time specified therefor, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less for each such failure;

(b) to file any return or furnish any information, books or other documents within the time specified therefor in the regulations or the bye-laws, fails to file return or furnish the same within the time specified therefor, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less;

(c) to maintain books of account or records, fails to maintain the same, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

19-B. Penalty for failure to enter into an agreement.-If a depository or participant or any issuer or its agent or any person, who is registered as an intermediary under the provisions of Section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), and is required under this Act or any rules or regulations made there under, to enter into an agreement, fails to enter into such agreement, such depository or participant or issuer or its agent or intermediary shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less for every such failure.

19-C. Penalty for failure to redress Investors' grievances.-If any depository or participant or any issuer or its agent or any person, who is registered as an intermediary under the provisions of Section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), after having been called upon by the Board in writing, to redress the grievances of the investors, fails to redress such grievances within the time specified by the Board, such depository or participant or issuer or its agents or intermediary shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

19-D. Penalty for delay in (^materialisation or issue of certificate of securities.- If any issuer or its agent or any person, who is registered as an intermediary under the provisions of Section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), fails to dematcrialise or issue the certificate of securities on opting out of a depository by the investors, within the time



specified under this Act or regulations or bye-laws made there under or abets in delaying the process of dematerialisation or issue the certificate of securities on opting out of a depository of securities, such issuer or its agent or intermediary shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

19-E. Penalty for failure to reconcile records.-If a depository or participant or any issuer or its agent or any person, who is registered as an intermediary under the provisions of Section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), fails to reconcile the records of dematerialised securities with all the securities issued by the issuer as specified in the regulations, such depository or participant or issuer or its agent or intermediary shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

19-F. Penalty for failure to comply with directions issued by Board under Section 19 of the Act.-If any person fails to comply with the directions issued by the Board under Section 19, within the time specified by it, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

19-G. Penalty for contravention where no separate penalty has been provided.- Whoever fails to comply with any provision of this Act, the rules or the regulations or bye-laws made or directions issued by the Board there under for which no separate penalty has been provided, shall be liable to a penalty which may extend to one crore rupees.

19-H. Power to adjudicate.-(1) For the purpose of adjudging under Sections 19-A, 19-B, 19-C, 19-D, 19-E, 19-F and 19-G, the Board shall appoint any officer not below the rank of a Division Chief of the Securities and Exchange Board of India to be an adjudicating officer for holding an inquiry in the prescribed manner after giving any person concerned a reasonable opportunity of being heard for the purpose of imposing any penalty.

(2) While holding an inquiry, the adjudicating officer shall have power to summon and enforce the attendance of any person acquainted with the facts and circumstances of the case to give evidence or to produce any document, which in the opinion of the adjudicating officer, may be useful for or relevant to the subject-matter of the inquiry and if, on such inquiry, he is satisfied that the person has failed to comply with the provisions of any of the sections specified in sub-section (1), he may impose such penalty as he thinks fit in accordance with the provisions of any of those sections.

19-I. Factors to be taken into account by adjudicating officer.-While adjudging the quantum of penalty under Section 19-H, the adjudicating officer shall have due regard to the following factors, namely:-

- (a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;
- (b) the amount of loss caused to an investor or group of investors as a result of the default;
- (c) the repetitive nature of the default.

19-J. Crediting sums realised by way of penalties to Consolidated Fund of India.- All sums realised by way of penalties under this Act shall be credited to the Consolidated Fund of India.”

## Section 18. Substitution of new section for Section 20

For Section 20 of the principal Act, the following section shall be substituted, namely:-





"20. Offences.-(1) Without prejudice to any award of penalty by the adjudicating officer under this Act, if any person contravenes or attempts to contravene or abets the contravention of the provisions of this Act or of any rules or regulations or bye-laws made there under, he shall be punishable with imprisonment for a term which may extend to ten years, or with fine, which may extend to twenty-five crore rupees, or with both.

(2) If any person fails to pay the penalty imposed by the adjudicating officer or fails to comply with any of his directions or orders, he shall be punishable with imprisonment for a term which shall not be less than one month but which may extend to ten years, or with fine, which may extend to twenty-five crore rupees, or with both."

## Section 19. Substitution of new sections for Section 22

For Section 22 of the principal Act, the following sections shall be substituted, namely:-

"22. Cognizance of offences by courts.-(1) No court shall take cognizance of any offence punishable under this Act or any rules or regulations or bye-laws made thereunder, save on a complaint made by the Central Government or State Government or the Securities and Exchange Board of India or by any person.

(2) No court inferior to that of a Court of Session shall try any offence punishable under this Act.

22-A. Composition of certain offences.-Notwithstanding anything contained in the Code of Criminal Procedure, 1973 (2 of 1974), any offence punishable under this Act, not being an offence punishable with imprisonment only, or with imprisonment and also with fine, may either before or after the institution of any proceeding, be compounded by a Securities Appellate Tribunal or a court before which such proceedings are pending.

22-B. Power to grant immunity.-(1) The Central Government may, on recommendation by the Board, if the Central Government is satisfied, that any person, who is alleged to have violated any of the provisions of this Act or the rules or the regulations made thereunder, has made a full and true disclosure in respect of alleged violation, grant to such person, subject to such conditions as it may think fit to impose immunity from prosecution for any offence under this Act, or the rules or the regulations made thereunder or also from the imposition of any penalty under this Act with respect to the alleged violation :

Provided that no such immunity shall be granted by the Central Government in cases where the proceedings for (he prosecution for any such offence have been instituted before the date of receipt of application for grant of such immunity :

Provided further that recommendation of the Board under this sub-section shall not be binding upon the Central Government.

(2) An immunity granted to a person under sub-section (1) may, at any time, be withdrawn by the Central Government, if it is satisfied that such person had, in the course of the proceedings, not complied with the condition on which the immunity was granted or had given false evidence, and thereupon such person may be tried for the offence with respect to which the immunity was granted or for any other offence of which he appears to have been guilty in connection with the contravention and shall also become liable to the imposition of any penalty under this Act to which such person would have been liable, had not such immunity been granted."

## Section 20. Amendment of Section 23-A

In Section 23-A of the principal Act, in subsection (1), after the words, brackets and figures "Save as provided in sub-section (2), any person aggrieved by an order of the Board made, on



and after the commencement of the Securities Laws (Second Amendment) Act, 1999 (32 of 1999), under this Act, or the regulations made thereunder,” and before the words “may prefer an appeal to a Securities Appellate Tribunal having a jurisdiction in the matter,” the words “or by an order made by an adjudicating officer under this Act” shall be inserted.

## Section 21. Substitution of new section for Section 23-F

For Section 23-F of the principal Act, the following section shall be substituted, namely:-

“23-F. Appeal to Supreme Court.-Any person aggrieved by any decision or order of the Securities Appellate Tribunal may file an appeal to the Supreme Court within sixty days from the date of communication of the decision or order of the Securities Appellate Tribunal to him on any question of law arising out of such order :

Provided that the Supreme Court may, if it is satisfied that the appellant was prevented by sufficient cause from filing the appeal within the said period, allow it to be filed within a further period not exceeding sixty days.”.

## Section 22. Amendment of Section 24

In Section 24 of the principal Act, in sub-section (2), for clause (a), the following clauses shall be substituted, namely:-

“(a) the manner of inquiry under sub-section (1) of Section 19-H;

(aa) the time within which an appeal may be preferred under sub-section (1) of Section 23;”.



## Section 23. Repeal and saving

(1) The Securities Laws (Amendment) Ordinance, 2004 (Ord. 4 of 2004) is hereby repealed.

(2) Notwithstanding such repeal, anything done or any action taken under the Securities Contracts (Regulation) Act, 1956 (42 of 1956) and the Depositories Act, 1996 (22 of 1996), as amended by the said Ordinance, shall be deemed to have been done or taken under the corresponding provisions of those Acts, as amended by this Act.


