



CIRCULAR

CIR/MRD/DP/ 06 /2011

June 16, 2011

To,

All Stock Exchanges

Dear Sir / Madam,

Sub:Modification to Investor Protection Fund (IPF)/ Customer Protection Fund (CPF) Guidelines

1. SEBI vide circular no MRD/DoP/SE/Cir-38/2004 dated October 28, 2004 had issued comprehensive guidelines for regulation of Investor Protection Fund (IPF)/ Customer Protection Fund (CPF) required to be maintained by Stock Exchanges. Further vide circular No. MRD/DoP/SE/Cir-21/2006 dated December 14, 2006, SEBI issued a clarification to Clause 24 of the Annexure to Circular dated October 28, 2004, specifying that in case of defaulting brokers with multiple memberships, the residual amount after satisfying claims of SEBI, the concerned stock exchange, and all other exchanges, would be credited to the IPF/CPF of the concerned exchange. The Circular dated October 28, 2004 as clarified by Circular dated December 14, 2006 shall hereinafter be referred to as the "Comprehensive Guidelines on IPF/CPF of Stock Exchanges" or "The Comprehensive Guidelines".
2. Exemptions have been sought by Stock Exchanges from strict compliance with Clause 24 of the Annexure to Circular dated October 28, 2004 on the ground that the residual amount remaining after satisfaction of claims against the defaulting broker should be refunded to the broker and not credited to the IPF/CPF. SEBI has decided to modify certain clauses of the abovementioned Annexure, with a view to harmonise the practices followed by various exchanges to meet investor claims.
3. Thus it has been decided to modify the Comprehensive Guidelines -
 - a) Clause 8 shall be substituted with the following –

8."The specified period for inviting legitimate claims against a defaulter member, shall be a minimum of ninety days."



- b) Clause 13 shall be substituted with the following –

13."If any eligible claims arise within three years from the date of expiry of the specified period such claims shall be borne by the stock exchanges without any recourse to the IPF/CPF.

Provided that any claims received after three years from the date of expiry of the specified period may be dealt with as a civil dispute.

Provided further that in cases where any litigations are pending against the defaulter member, the residual amount, if any, may be retained by the stock exchange until such litigations are concluded."

Disbursement of Claims from the IPF/ CPF

- c) Clause 22 shall be deleted.

- d) Clause 23 shall be substituted with the following -

23. "The compensation shall be disbursed to the investor from the IPF/ CPF incase there is a shortage of defaulter broker's assets after its realization."

- e) Clause 24, as it reads after incorporation of clarification vide Circular dated December 14, 2006, shall be substituted with the following –

24."The Stock Exchange shall ensure that the amount realized from the assets of the defaulter member is returned to the defaulter member after satisfying the claims of the Stock Exchange and SEBI in accordance with the bye-laws of the Stock Exchange.

Provided that in case of a member broker having membership on multiple stock exchanges, amount realized from the assets of the defaulter member shall be returned to the said member only after satisfying eligible claims of the concerned stock exchange, SEBI, and other stock exchanges."

4. Exchanges are advised to

- a) make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision.
- b) bring the provisions of this Circular to the notice of the member brokers/clearing members of the Exchange and also to disseminate the same on the website.



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Securities and Exchange Board of India

- c) communicate the status of the implementation of this Circular in the Monthly Development Report to SEBI.
5. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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