



भारतीय प्रतिभूति और विनियम बोर्ड  
Securities and Exchange Board of India

CIRCULAR

CIR/CDMRD/DEICE/CIR/P/2017/53

June13, 2017

To,

The Managing Directors / Chief Executive Officers  
All National Commodity Derivatives Exchanges

Sir/Madam,

**Subject: Comprehensive guidelines for Investor Protection Fund, Investor Service Fund and its related matters at National Commodity Derivatives Exchanges**

1. SEBI, vide its circular no SEBI/HO/CDMRD/DEICE/CIR/P/2016/94 dated September 26, 2016, consolidated various norms and guidelines relating to Investor Protection Fund, issued by the erstwhile FMC, applicable to the National Commodity Derivatives Exchanges (herein after referred to as Exchanges).
2. With the objective to align with the practices in securities markets, based on the internal deliberations, discussions and feedback as received from the National Commodity Derivatives Exchanges, it has been decided to modify certain clauses in the aforesaid circular as under :

**Constitution and management of the IPF**

a) Clause 3.2. shall be substituted the following –

**3.2.** The IPF Trust of the exchange shall have maximum 5 trustees. The IPF Trust shall consist of three public interest directors, one representative from investor associations recognized by SEBI and the compliance officer of the exchange. The maximum tenure of a trustee (excluding the compliance officer of the exchange, whose trusteeship would be co-terminus with the service) shall be five years or as specified by SEBI.

b) Clause 3.3. and 3.6. shall be deleted

**Contribution to the IPF**

c) Clause 4.1. shall be substituted the following-



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4.1. All the penalties levied and collected by the exchange, except for the settlement related penalties (including penalties from delivery default), shall be credited of the IPF.

4.2. 1% of the turnover fee charged by the exchange from its members/brokers or ten lakh whichever is higher in a financial year.

## **Eligibility of claims**

d) Clause 6.2. shall be substituted the following-

6.2. If any eligible claim arises within three years from the date of expiry of the specified period, such claim

- i. shall be considered eligible for compensation from IPF/CPF in case where the defaulter member's funds are inadequate. In such cases, IPF/CPF Trust shall satisfy itself that such claim could not have been filed during the specified period for reasons beyond the control of the claimant.
- ii. shall not be considered eligible for compensation from IPF/CPF in case where the surplus funds of the defaulter member is returned to the defaulter member. The same shall be borne by the exchanges after scrutinizing and satisfying itself that such claim could not have been filed during the specified period for reasons beyond the control of the claimant.

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

e) Clause 6.3. shall be deleted

f) Clause 6.4. shall be substituted the following-

6.4. The investor claim arising out of a default of a broker/member of the exchange shall be eligible for compensation from IPF.

## **Determination of legitimate claims**

g) Clause 7.1. and 7.2. shall be substituted as following-

7.1. In case of claims against a defaulter member, the claims of the claimant shall be placed before the defaulters' committee for sanction and



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ratification. The Defaulters' Committee's advice with respect to legitimate claims shall be sent to IPF Trust for disbursement of the amount.

- 7.2. In case the claim amount is more than the maximum limit for compensation under IPF or the amount sanctioned and ratified by the Defaulters Committee is less than the claim amount, then the investor may prefer for arbitration mechanism for claim of the balance amount.

h) Clause 7.3. shall be inserted the following-

- 7.3. In the event of default by the member, all transactions executed on the exchange platform shall be eligible for settlement from IPF subject to the appropriate norms laid down by the defaulters' committee. The IPF of the exchange shall be utilized for the clients of SEBI registered members. However, the said amount shall not be more than the maximum limit as prescribed at all time.

### **Threshold limit for claims**

i) Clause 8.1 and 8.2 shall be substituted the following:

8.1. The Exchanges are free to fix suitable compensation limits, in consultation with IPF trust. However, the amount of compensation available against a single claim of an investor arising out of defaulter by a member broker shall not be less than Rs 1 lakh.

8.2. The exchanges in consultation with IPF Trust, shall review and progressively incase the amount of compensation available against a single claim from an investor at least every three year.

j) Clause 8.3 shall be deleted

### **Disbursement of Claims from the IPF**

k) Clause 9.2. and 9.3. shall be substituted the following:

9.2. The compensation shall be disbursed to the investor from the IPF in case there is a shortage of defaulter broker's assets after its realization.

9.3. The 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 exchanges and SEBI in accordance with the bye-laws of the exchange.



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**Provided that** in case of a member broker having membership on multiple 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 exchange, SEBI, and other exchanges as the case may be.

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

3. The IPF Trust shall disburse the compensation to the investors as and when claims have been crystallized against a defaulter member. The IPF Trust need not wait for realization of assets of the defaulter member for disbursement of the claims. Upon receipt of advice of defaulter's committee, for payment, the IPF Trust shall take necessary steps for disbursement of amount at the earliest.
4. Exchanges shall periodically review the sources of fund and eligible compensation amount so as to recalibrate the fund to make suitable recommendation for enhancement.

### **Income earned on IPF and its Utilization:**

5. The exchange may utilize income earned on the corpus of IPF towards promotion of investor education and awareness programmes through seminars, lectures, workshops, publications (print and electronic media), training programs etc. to enhance literacy and to promote participation in the commodity derivatives market or any other mandated purpose. Capital expenditure would be permissible only w.r.t. setting up of Investor Service Centre. However, no expenditure to be incurred on product promotion in any manner. However, in case of non-utilization of the said income in the same financial year for the mandated purpose, the same shall be ploughed back to IPF. In addition to above, the income earned on the IPF corpus may be utilized in other manner as prescribed/permitted by SEBI in the interest of investors from time to time.
6. In order to ensure effective utilization of income earned on IPF, supervision of utilization of interest on IPF will rest with the IPF Trust of the exchange.

### **Investor Service Fund (ISF)**

7. Exchanges are mandated to set up Investor Service Fund (ISF) for providing following basis minimum facilities at various Investor Service Centers (ISC).
  - a. The ISC shall provide 4 financial newspapers with at least one in the Regional language.



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- b. The ISC shall install computer software (marketed by some vendors) which provide information about various commodities (agri and non agri) including research reports, general, financial & other important commodity related information. The information will be made available through computers with one master terminal and some dummy terminals through which investors could access this information. Other facilities like copying will be made available to the investors at minimum cost.
- c. The ISC shall provide facilities for receiving/recording investor complaints. Special staff recruited/deployed by the exchange for this purpose will register the complaints and provide counseling service to the investors. Status of complaints will be maintained and updated in the computer system of the Center.
- d. The ISC shall provide for other infrastructure facilities such as telephone, photocopier, furniture, sitting space, internet connection having access to various directions / circulars issued by SEBI and Government agencies etc.
- e. The ISC shall provide published commodity related materials of exchanges for the benefit of the investors. It should also provide the pamphlets / brochures detailing the rights and obligation of investors while dealing with brokers in commodity markets, FAQ's etc.
- f. The ISC shall provide for dummy terminals to display the prices of the commodities listed on the exchange on real-time basis, to enable investors watch the price movements of the commodities etc.
- g. The ISC shall maintain a library on relevant laws, financial analysis, market trend analysis etc. for the education of the investors.
- h. The ISC shall conduct various investor education and investor awareness programs through seminars, lectures, workshops, publications (print and electronic media), training programs etc. enhance literacy and promoting participation in the commodity derivatives market.

### **Contribution to ISF**

- a. At initial stage, the exchange shall contribute a minimum of Rs Ten Lakhs towards setting up of Investor Service Fund (ISF). Subsequently, onwards, the Exchanges shall transfer the 1% percent of the turnover fees charged by the exchange from its members on monthly basis towards ISF within 7 days of the end of the month, subject to minimum of Rs Ten Lakh in a financial year.
- b. The Exchange shall also plough back the entire income earned on the corpus of ISF to the ISF within one month from the end of September and March of each year.



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8. The exchange shall be permitted to utilize the corpus of ISF for conducting various investor education and awareness programs, capacity building programs and maintenance of all price ticker boards installed by the respective exchanges, cost of training of arbitrators etc. In addition to above, the corpus may be utilized in other manner as prescribed/permitted by SEBI in the interest of investors from time to time.
9. In order to efficient management of ISF, Investor Service Committee (ISC) of exchange shall oversee the contribution to ISF and its utilization.
10. Exchange shall maintain separate bank account for maintaining corpus of the IPF as well as ISF and such funds should not be co-mingled with any other fund(s) of the exchange and shall not be used for any other purpose than the mandated purposes as mentioned in this circular.
11. The provisions of this circular shall come into effect from July 01, 2017.
12. The exchanges are advised to:-
  - make necessary amendments to relevant bye-laws, rules and regulations for the implementation of this circular.
  - bring the provisions of this circular to the notice of the members of the exchange and also to disseminate the same on their website.
  - communicate to SEBI, the status of implementation of the provisions of this circular.
13. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
14. The circular is available on SEBI website at [www.sebi.gov.in](http://www.sebi.gov.in) .

**Yours faithfully,**

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