



CIRCULAR

SEBI/HO/DMS/CIR/P/2017/15

February 23, 2017

All Recognized Stock Exchanges (excluding Commodity Derivatives Exchanges)/ Depositories

Sir/ Madam,

Sub: Amendment pursuant to comprehensive review of Investor Grievance Redressal Mechanism

In order to enhance the effectiveness of grievance redressal mechanism at Market Infrastructure Institutions (MIIs), SEBI has comprehensively reviewed the existing framework in consultation with the Stock Exchanges and Depositories (inter alia, issues relating to strengthening of arbitration mechanism and investor protection mechanism).

Based on the aforesaid review, it has been decided to revamp the grievance redressal mechanism at Stock Exchanges and Depositories (wherever applicable), as follows:-

1. Investor Grievance Resolution Panel (IGRP)/ Arbitration Mechanism

The existing IGRP/ arbitration mechanism to be modified as follows:

A. Public dissemination of profiles of arbitrators

In order to enhance transparency and also to provide choice to parties, Stock Exchanges/ Depositories shall disseminate information w.r.t. brief profile, qualification, areas of experience/ expertise, number of arbitration matters handled, pre-arbitration experience, etc. of the arbitrators on their website.

B. Submission of documents in soft copies

In order to assist the arbitrators in pronouncing comprehensive and speedy awards, Stock Exchanges/ Depositories shall make necessary arrangements in terms of hardware viz., computer, scanner, printer, etc. and required software's at exchange offices/ Investor Service Centers (ISCs) to facilitate the clients to type/ convert their documents into electronic format/ soft copy. Such

electronic format/ soft copies shall be provided to the arbitrators along with original submissions in physical copies.

C. Review and Training of arbitrators

Investor Service Committee of the Stock Exchanges/ Depositories shall review the performance of the arbitrators annually and submit the review report to the Board of the Stock Exchange/ Depository. Training need of the arbitrators will be catered by National Institute of Securities Markets (NISM). Cost of training of arbitrators may be incurred from ISF.

D. Mechanism for implementation of award

Stock Exchanges/ Depositories shall create a common database of defaulting clients accessible to members/ depository participants across the Stock Exchanges/ Depositories.

For this purpose, a client may be identified as defaulter if the client does not pay the award amount to the member/ depository participant as directed in the IGRP/ arbitration/ appellate arbitration order and also does not appeal at the next level of redressal mechanism within the timelines prescribed by SEBI or file an application to court to set aside such order in accordance with Section 34 of the Arbitration and Conciliation Act, 1996 (in case of aggrieved by arbitration/ appellate award).

E. Empanelment of arbitrators and segregation of arbitration and appellate arbitration panel

There shall be separate panels for arbitration and appellate arbitration. Further, for appellate arbitration, at least one member of the panel should be a Retired Judge.

Stock Exchanges/ Depositories shall obtain prior approval of SEBI before empanelment of arbitrators/ appellate arbitrators.

F. Empanelment of IGRP members

Stock Exchanges shall empanel IGRP members and no arbitrator/ appellate arbitrator shall be empaneled as IGRP member.

G. Revision in professional fee of arbitrators

The arbitrator fee shall be upwardly revised to Rs.18,000/- (Rs. Eighteen thousand) per case. Consequent to this upward revision, the additional expenses attributable to a client over and above the fee structure specified in point J, shall be borne by the client (wherever applicable) and Stock Exchange/ Depository equally. The total expense attributable to the member/ depository participant has to be borne by the concerned member/ depository participant.

H. Place of arbitration/ appellate arbitration

In case award amount is more than Rs. 50 lakh (Rs. Fifty lakh), the next level of proceedings (arbitration or appellate arbitration) may take place at the nearest metro city, if desired by any of the party involved. The additional cost for arbitration, if any, to be borne by the appealing party.

I. Arbitration/ appellate arbitration award

In order to safeguard the interest of the parties involved in arbitration and to ensure speedy implementation of the arbitration award, the rate of interest on the award passed by arbitrators shall be in compliance with Arbitration and Conciliation (Amendment) Act, 2015.

J. Speeding up grievance redressal mechanism

- (i) In order to have faster implementation of award and to discourage delayed filling of arbitrations by members, the fee structure (exclusive of statutory dues - stamp duty, service tax, etc.) for filling arbitration reference shall be as follows:-

Amount of Claim / Counter Claim, whichever is higher (Rs.)	If claim is filed within six months from the date of dispute	If claim is filed after six months from the date of dispute or after one month from the date of IGRP order, whichever is later	If the claim is filed beyond the timeline prescribed in column 3, (only for member)
≤ 10,00,000	1.3% subject to a minimum of Rs.10,000	3.9% subject to a minimum of Rs.30,000	Additional fee of Rs. 3,000/- per month over and above fee prescribed in column 3
> 10,00,000 - 25,00,000 ≤	Rs. 13,000 plus 0.3% amount above Rs. 10 lakh	Rs. 39,000 plus 0.9% amount above Rs. 10 lakh	Additional fee of Rs. 6,000/- per month over and above fee prescribed in column 3
> 25,00,000	Rs. 17,500 plus 0.2 % amount above Rs. 25 lakh subject to maximum of Rs. 30,000	Rs. 52,500 plus 0.6 % amount above Rs. 25 lakh subject to maximum of Rs.90,000	Additional fee of Rs. 12,000/- per month over and above fee prescribed in column 3

- (ii) The filing fee will be utilized to meet the fee payable to the arbitrators.
- (iii) A client, who has a claim / counter claim upto Rs. 10 lakh (Rs. Ten lakh) and files arbitration reference, will be exempted from filing the deposit.
- (iv) Excess of filing fee over fee payable to the arbitrator, if any, to be deposited in the IPF of the respective Stock Exchange.
- (v) In all cases, on issue of the arbitral award the stock exchange shall refund the deposit to the party in whose favour the award has been passed.

2. Investor Protection fund (IPF), Investor Service fund (ISF), Interest on IPF and Interest on ISF

A. IPF and ISF management structure

- (i) In order to ensure effective utilization of interest income on IPF, supervision of utilization of interest on IPF will rest with the IPF Trust.
- (ii) In order to have better management and control on the contributions and utilization of ISF fund, supervision of the same will rest with the Investor Service Committee.

B. Investor Protection fund corpus

In order to ensure the adequacy of corpus of the IPF, Stock Exchanges and Depositories shall periodically review the sources of the fund and the eligible compensation amount so as to recalibrate the fund to make suitable recommendation for enhancement.

C. Utilization of IPF, ISF, interest on IPF and interest on ISF

Modified guidelines for utilization of IPF, Interest on IPF, ISF and Interest on ISF would be as follows:

Sr. No.	Particulars	Utilization
1	IPF	Stock Exchanges: To meet the legitimate investment claims of the clients of the defaulting members.
		Depository: a) Promotion of investor education and investor awareness programmes through seminars, lectures, workshops, publications (print and electronic media), training programmes etc. aimed at enhancing securities market literacy and promoting retail participation in securities market;

		b) To utilize the fund for supporting initiatives of Depository Participants for promotion of investor education and investor awareness programmes; c) To utilize the fund in any other manner as may be prescribed/ permitted by SEBI in the interest of investors; d) To meet the legitimate claims of the beneficial owners, upto the maximum cap as to be determined by the depository, in case the same is not settled by the beneficial owner indemnity insurance;
2	Interest on IPF	Stock Exchanges: a) To further strengthen the corpus, 75% of interest on IPF earned every year shall be treated as corpus of IPF; b) The balance 25% may be utilized by the exchange for promotion of investor education and investor awareness programmes through seminars, lectures, workshops, publications (print and electronic media), training programmes etc. aimed at enhancing securities market literacy, promoting retail participation in securities market and undertaking research activities related to securities market. 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. c) In any other manner as may be prescribed/ permitted by SEBI in the interest of investors; Depositories: To further strengthen the corpus , 100% of Interest on IPF shall be treated as corpus of IPF
3	ISF	Exchanges: a) ISF may be utilized only for promotion of investor education and investor awareness programmes through seminars, lectures, workshops, publications (print and electronic media), training programmes etc. aimed at enhancing securities market literacy and promoting retail participation in securities market; b) At least 50% should be spent at Tier II & Tier III cities; c) Cost of training of arbitrators; d) In any other manner as may be prescribed/ permitted by SEBI in the interest of investors;
4	Interest on ISF	Exchanges: Interest on ISF shall be ploughed back to ISF

D. Admissibility of claim for making payment out of IPF in Stock Exchanges

In the event of default by the member, all transactions executed on exchange platform shall be eligible for settlement from IPF (subject to maximum limit), subject to the appropriate norms laid down by the Defaulters' Committee.

E. Determination of legitimate claims from IPF for clients of the defaulter member

The Stock Exchanges shall ensure that once a member has been declared defaulter, the claim (s) shall be placed before the Defaulters' Committee for sanction and ratification. The Defaulters' Committee's advice w.r.t. legitimate claims shall be sent to the IPF Trust for disbursement of the amount immediately.

In case the claim amount is more than the coverage limit under IPF or the amount sanctioned and ratified by the Defaulters' Committee is less than the claim amount then the investor will be at liberty to prefer for arbitration mechanism for claim of the balance amount.

F. Threshold limit for interim relief paid out of IPF in Stock Exchanges

In partial modification to Circular No. CIR/MRD/ICC/30/2013 dated September 26, 2013 on "Investor Grievance Redressal Mechanism" the following changes are prescribed:

- (i) Stock Exchanges, in consultation with the IPF Trust and SEBI, shall review and progressively increase the amount of interim relief available against a single claim for an investor, atleast every three years.
- (ii) The Stock Exchanges shall disseminate the interim relief limit fixed by them and any change thereof, to the public through a Press Release and also through its website.
- (iii) In case, award is in favour of client and the member opts for arbitration wherein the claim value admissible to the client is not more than Rs. 20 lakhs (Rs. Twenty lakhs), the following steps shall be undertaken by the Stock Exchange:
 - a) In case the IGRP award is in favour of the client then 50% of the admissible claim value or Rs. 2.00 lakhs (Rs. Two lakhs), whichever is less, shall be released to the client from IPF of the Stock Exchange.
 - b) In case the arbitration award is in favour of the client and the member opts for appellate arbitration then 50% of the amount mentioned in the arbitration award or Rs. 3.00 lakhs (Rs. Three lakhs), whichever is less, shall be released to the client from IPF of the Stock Exchanges. The

amount released shall exclude the amount already released to the client at clause (a) above.

- c) In case the appellate arbitration award is in favour of the client and the member opts for making an application under Section 34 of the Arbitration and Conciliation Act, 1996 to set aside the appellate arbitration award, then 75% of the amount determined in the appellate arbitration award or Rs. 5.00 lakhs (Rs. Five Lakhs), whichever is less, shall be released to the client from IPF of the Stock Exchanges. The amount released shall exclude the amount already released to the client at clause (a) and (b) above.
- d) Total amount released to the client through the facility of interim relief from IPF in terms of this Circular shall not exceed Rs. 10.00 lakhs (Ten lakhs) in a financial year.

3. **Disciplinary Action Committee, Defaulters' Committee, Investors Service Committee, Arbitration Committee and IPF Trust**

- (i) In partial modification to circular no. MRD/DoP/SE/Cir-38/2004 dated October 28, 2004 and CIR/MRD/DSA/33/2012 dated December 13, 2012, the functions and composition of the Disciplinary Action Committee, Defaulter's Committee, Investors Service Committee and IPF Trust will be as follows:

Sr. No.	Name of Committee	Functions handled	Composition
1	Disciplinary Action Committee	i. The Committee shall formulate the policy for regulatory actions including warning, monetary fine, suspension, withdrawal of trading terminal, expulsion, to be taken for various violations by the members of the exchange. ii. Based on the laid down policy, the Committee shall consider the cases of violations observed during inspection, etc and impose appropriate regulatory action on the members of the exchange. iii. While imposing the regulatory measure, the Committee shall adopt a laid	(i) The Committee shall have a minimum of 3 members and a maximum of 5 members; (ii) The Public Interest Directors shall form a majority of the Committee; (iii) A maximum of two key management personnel of the exchange can be on the committee and one of which shall necessarily be the Managing Director of the stock exchange; (iv) The Committee may also include independent external persons such as retired judge, etc.;

		down process, based on the 'Principles of natural justice'.	(v) SEBI may nominate members in the Committee, if felt necessary in the interest of securities market;
2	Defaulters' Committee	i. To realize all the assets / deposits of the defaulter/ expelled member and appropriate the same amongst various dues and claims against the defaulter/ expelled member in accordance with the Rules, Byelaws and Regulations of the exchange. ii. In the event both the clearing member and his constituent trading member are declared defaulter, then the Defaulter's Committee of the stock exchange and the Defaulter's Committee of the clearing corporation shall work together to realise the assets of both the clearing member and the trading member. iii. Admission or rejection of claims of client/ trading members/ clearing members over the assets of the defaulter/ expelled member. iv. Advise in respect of the claims to the Trustees of the IPF on whether the claim is to be paid out of IPF or otherwise.	(i) The Committee shall have a minimum of 3 members and a maximum of 5 members; (ii) The Public Interest Directors shall form a majority of the Committee; (iii) A maximum of two key management personnel of the exchange can be on the Committee; (iv) The Committee may also include independent external persons such as retired judge, etc.; (v) SEBI may nominate members in the Committee, if felt necessary in the interest of securities market;
3	Investor Services Committee	(i) Supervising the functioning of Investors' Services Cell of the Exchange which includes review of complaint resolution process, review of complaints remaining unresolved over long period of time, estimate the adequacy of resources dedicated to investor services, etc.;	(i) The Committee shall have a minimum of 3 members and a maximum of 5 members; (ii) The Public Interest Directors shall form a majority of the Committee; (iii) A maximum of two key management personnel of

		(ii) Supervision of utilization of ISF; (iii) To have annual review of the arbitrators and arbitration/ awards (both quantum and quality of the awards).	the exchange can be on the Committee; (iv) The Committee may also include independent external persons; (v) SEBI may nominate members in the Committee, if felt necessary in the interest of securities market;
4	IPF Trust	(i) The IPF shall be administered by way of a Trust created for this purpose; (ii) The IPF Trust shall disburse the amount of compensation from IPF to the investor and such a compensation shall not be more than the maximum amount fixed for a single claim of an investor; (iii) The IPF Trust shall disburse the compensation to the investors as and when claims have been crystallized against a defaulter member; (iv) The IPF Trust need not wait for realization of assets of the defaulter member for disbursements of the claims; (v) Upon receipt of advice of the Defaulters' Committee, for payment, the IPF Trust shall take necessary steps for disbursement of the amount at the earliest	(i) The Trust shall have maximum 5 trustees; (ii) The trustee shall comprise of : a. Three Public Interest Directors; b. One representative from investor associations recognized by SEBI; and c. The principal regulatory compliance officer of the MII; (iii) The maximum tenure of a trustee (excluding the principal regulatory compliance officer of the MII, whose trusteeship would be co-terminus with the service) shall be five years or as specified by SEBI;

(ii) The Arbitration Committee of the Stock Exchanges shall stand discontinued.

4. The Stock Exchanges (excluding Commodity Derivatives Exchanges)/ Depositories are directed to:
 - a) make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision immediately;
 - b) bring the provisions of this circular to the notice of the members/ DPs and also to disseminate the same through their website; and
 - c) take steps to make the investors aware of the aforesaid changes/ modifications.
5. 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 9(2)(n) and 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 and shall come into effect immediately. All other provisions of the relevant circulars will continue to be in force.
6. This circular is available on SEBI website at www.sebi.gov.in.

Yours faithfully,

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