



# Info Capsule

## **MCA INVITES COMMENTS/ SUGGESTIONS ON THE DRAFT OF AMENDMENTS TO THE “COMPANIES (SPECIFICATION OF DEFINITIONS DETAILS) RULES, 2014”<sup>1</sup>**

The MCA has invited comments/ suggestions on the draft of amendments to the *Companies (Specification of Definitions Details) Rules, 2014*, dated June 28, 2017.

***The proviso to clause (87) of section 2 of the Companies Act, 2013 provides for restricting class or classes of holding companies from having layers of subsidiaries beyond prescribed number.*** Based on suggestions received, the Ministry of Corporate Affairs (MCA) is considering commencing the said provision.

Suggestions/ comments on the draft rules along with justifications in brief may be sent latest by **July 20, 2017** at [csddar@mca.gov.in](mailto:csddar@mca.gov.in)

MCA has requested that the name, contact number, email address and postal address of the sender be indicated clearly at the time of sending suggestions/comments in the following format :-

### **Format for sending suggestions/comments**

1. Name of stakeholder
2. Contact number of stakeholder
3. Email address of stakeholder
4. Postal address of stakeholder
5. Suggestions/comments as under

<b>Serial Number</b>	<b>Rule/sub-rule Number</b>	<b>Suggestion/ comments</b>	<b>Justification</b>
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<sup>1</sup>Available at: [http://www.mca.gov.in/Ministry/pdf/Notice\\_29062017.pdf](http://www.mca.gov.in/Ministry/pdf/Notice_29062017.pdf)

The draft of amendments to the Companies (Specification of Definitions Details) Rules, 2014, along with a background/explanatory note has been placed on the Ministry's website <http://www.mca.gov.in/> for suggestions/ comments, which could be accessed at [http://www.mca.gov.in/Ministry/pdf/Notice\\_29062017.pdf](http://www.mca.gov.in/Ministry/pdf/Notice_29062017.pdf)

## **NON-COMPLIANCE WITH CERTAIN PROVISIONS OF SEBI (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2009 ("ICDR REGULATIONS")<sup>2</sup>**

SEBI has revised the penalty amount for Non-compliance with the provisions of **SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009**. Regulations 111A and 111B of ICDR Regulations inter alia specify liability of a listed entity or any other person for contravention and actions which can be taken by the respective stock exchange and the revocation of such actions, in the manner specified by SEBI.

In the direction of SEBI, Stock exchanges shall impose fine of Rs. 20,000 per day of non-compliance till the date of compliance on the companies for non-compliance with certain provisions of ICDR Regulations as under:

1. Delay in completion of bonus issue (Regulation 95)
2. Companies not allotting the shares on conversion of convertible securities within 18 months (Regulation 75)
3. Issuer not approaching the exchange for listing of equity shares within 20 days from date of allotment. (108(2))

If non-compliance continues for more than 15 days, additional fine of 0.01 % of paid up capital of the entity or ₹ 1 crore, whichever is less. Paid up capital as on first day of the financial year shall be consider for the calculation of additional fine. The amount of fine shall be credited to the "**Investor Protection Fund**" of the concerned recognized stock exchange.

The recognized stock exchanges shall disseminate the names of non-compliant listed entities on their website that are liable to pay fine for non-compliance, the amount of fine imposed, details of fines received, etc. The recognized stock exchange shall issue notice to the non-compliant listed entity to pay fine within 15 days from the date of the notice. If any non-compliant listed entity fails to pay the fine, the recognized stock exchange may initiate appropriate enforcement action, including prosecution.

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<sup>2</sup> [http://www.sebi.gov.in/legal/circulars/jun-2017/non-compliance-with-certain-provisions-of-sebi-issue-of-capital-and-disclosure-requirements-regulations-2009\\_35112.html](http://www.sebi.gov.in/legal/circulars/jun-2017/non-compliance-with-certain-provisions-of-sebi-issue-of-capital-and-disclosure-requirements-regulations-2009_35112.html)

## COMPREHENSIVE REVIEW OF MARGIN TRADING FACILITY<sup>3</sup>

SEBI has issued comprehensive framework on margin trading facility (MTF) including disclosure norms and eligibility requirements for brokers to provide it to clients.

Margin Trading is trading with borrowed funds/securities. It is fundamentally a leveraging mechanism which enables investors to take exposure in the market over and above what is possible with their own resources.

The highlights of revised framework for Margin Trading Facility are stated as under:

- Equity Shares that are classified as 'Group I security' shall be eligible for margin trading facility. Group I security means the securities having mean impact cost of less than or equal to 1 and having traded on at least 80% (+/-5%) of the days for the previous eighteen months.
- The initial margin shall be based on Value at Risk (VaR) plus three times of applicable Extreme Loss Margin (ELM) for Group I stocks in the F&O Segment. Further, for Group I stocks other than F&O stocks, the initial margin shall be VaR in addition to five times of applicable ELM. The initial margin, payable by the client to the broker, shall be in the form of cash or cash equivalent.
- The stocks deposited as collateral with the stock broker for availing margin trading facility (collaterals) and the stocks purchased under the margin trading facility (funded stocks) shall be identifiable separately and no comingling shall be permitted for the purpose of computing funding amount.
- Stock brokers shall ensure maintenance of such margin at all times during the period that the margin trading facility is being availed by the client. In case of short fall, stock broker shall make necessary margin calls.
- The stock broker shall list out situations/conditions in which the securities may be liquidated and such situations/conditions shall be included in the "Rights and Obligations Document". The broker shall liquidate the securities, if the client fails to meet the margin call to comply with the conditions as specified in the "Rights and Obligations Document" specified by exchange.
- Only corporate stock brokers with a net worth of at least Rs.3 crore shall be eligible to offer margin trading facility to their clients.
- The stock brokers shall submit to the stock exchange a half-yearly certificate, as on March 31 and September 30 of each year, from an auditor confirming the net worth.

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<sup>3</sup> [http://www.sebi.gov.in/legal/circulars/jun-2017/circular-on-comprehensive-review-of-margin-trading-facility\\_35098.html](http://www.sebi.gov.in/legal/circulars/jun-2017/circular-on-comprehensive-review-of-margin-trading-facility_35098.html)

Such certificate shall be submitted not later than 30th April and 31st October of every year.

- A stock broker may use own funds or borrow funds from scheduled commercial banks and/or NBFCs regulated by RBI. A stock broker shall not be permitted to borrow funds from any other source.
- The stock broker shall not use the funds of any client for providing the margin trading facility to another client, even if the same is authorized by the first client.
- At any point of time, the total indebtedness of a stock broker for the purpose of margin trading shall not exceed 5 times of its net worth.
- The maximum allowable exposure of the broker towards the margin trading facility shall be within the self-imposed prudential limits and shall not, in any case, exceed the borrowed funds and 50% of his "net worth". The stock broker shall ensure that the exposure to a single client does not exceed 10% of the "total exposure" of the broker.
- The stock broker shall disclose to the stock exchanges details on gross exposure towards margin trading facility including name of the client, Category of holding (Promoter/promoter group or Non-promoter), clients' Permanent Account Number ("PAN"), name of the scrips (Collateral stocks and Funded stocks) and if the stock broker has borrowed funds for the purpose of providing margin trading facility, name of the lender and amount borrowed. The stock exchanges shall disclose above information on their websites.
- The stock exchanges shall frame a Rights and Obligations document laying down the rights and obligations of stock brokers and clients for the purpose of margin trading facility. The Rights and Obligations document shall be mandatory and binding on the Broker/Trading Member and the clients for executing trade in the Margin Trading framework.
- Stock Brokers shall maintain separate client-wise ledgers for funds and securities of clients availing margin trading facility. The stock broker shall also maintain a separate record of details of the funds used and sources of funds for the purpose of margin trading.
- The books of accounts maintained by the broker with respect to the margin trading facility offered by it, shall be audited on a half yearly basis.
- The stock broker shall submit an auditor's certificate to the exchange within one month from the date of the half year ending 31st March and 30th September of a year certifying, inter alia, the extent of compliance with the conditions of margin trading facility.
- The stock brokers wishing to extend margin trading facility to their clients shall be required to obtain prior permission from the exchange where the margin trading

facility is proposed to be offered. The exchange shall have right to withdraw this permission at a later date, after giving reasons for the same.

- Any disputes arising between the client and the stock broker in connection with the margin trading facility shall have the same treatment as normal trades and should be covered under the investor grievance redressal mechanism, arbitration mechanism of the stock exchange.

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***Team ICSI***

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